

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)	

NOTICE OF FILING

Notice is given to all parties that the following materials have been filed into the record of this proceeding:

- The digital video recording of the evidentiary hearing conducted on February 19, 2020 in this proceeding;
- Certification of the accuracy and correctness of the digital video recording;
- All exhibits introduced at the evidentiary hearing conducted on February 19, 2020 in this proceeding;
- A written log listing, inter alia, the date and time of where each witness' testimony begins and ends on the digital video recording of the evidentiary hearing conducted on February 19, 2020

A copy of this Notice, the certification of the digital video record, and hearing log have been served upon all persons listed at the end of this Notice. Parties desiring to view the digital video recording of the hearing may do so at https://youtu.be/uIZQNRUc_Nw.

Parties wishing an annotated digital video recording may submit a written request by electronic mail to pscfilings@ky.gov. A minimal fee will be assessed for a copy of this recording.

Done at Frankfort, Kentucky, this 23rd day of July 2020.



Kent A. Chandler
Acting Executive Director
Public Service Commission of Kentucky

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 TARIFFS; 3) APPROVAL)
OF ACCOUNTING PRACTICES TO ESTABLISH)
REGULATORY ASSETS AND LIABILITIES; AND)
4) ALL OTHER REQUIRED APPROVALS AND)
RELIEF)

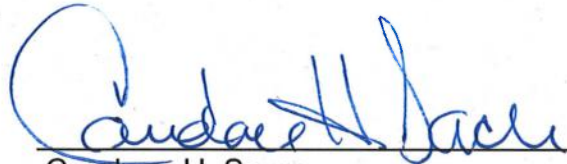
CASE NO.
2019-00271


CERTIFICATION

I, Candace H. Sacre, hereby certify that:

1. The attached DVD contains a digital recording of the Formal Hearing conducted in the above-styled proceeding on February 19, 2020. The Formal Hearing Log, Exhibits, and Exhibit List are included with the recording on February 19, 2020;
2. I am responsible for the preparation of the digital recording;
3. The digital recording accurately and correctly depicts the Formal Hearing of February 19, 2020; and
4. The Formal Hearing Log attached to this Certificate accurately and correctly states the events that occurred at the Formal Hearing of February 19, 2020, and the time at which each occurred.

Signed this 16th day of July, 2020.


Candace H. Sacre
Administrative Specialist III


Stephanie Schweighardt
Notary Public State at Large ID#: 614400
Commission Expires: January 14, 2023



Date:	Type:	Location:	Department:
2/19/2020	Public Hearing\Public Comments	Hearing Room 1	Hearing Room 1 (HR 1)

Witness: Melisa Abernathy; Richard Baudino; Justin Bieber; Paul Halstead; Retha Hunsicker; Chris Jacobi; Zak Kuznar; Renee Metzler; Roger Morin; Mike Moseley; John Panizza; Ben Passty; Lesley Quick; John Spanos; Amy Spiller; John Swez; Dani Weatherston
 Judge: Robert Cicero; Talina Mathews
 Clerk: Candace Sacre

Event Time	Log Event
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8:33:48 AM	Session Started	
8:33:50 AM	Vice Chairman Cicero Note: Sacre, Candace	We are now on the record in Case No. 2019-00271, Electronic Application of Duke Energy Kentucky, Inc. for an Adjustment of the Electric Rates; Approval of New Tariffs; Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and All Other Required Approvals and Relief.
8:34:15 AM	Vice Chairman Cicero Note: Sacre, Candace	My name is Robert Cicero. I'm Vice Chairman of the Public Service Commission. Seated to my right is Dr. Talina Mathews. Unfortunately, the Chairman is not going to be able to participate because of a personal conflict, although I can assure you he will watch this proceeding. As dedicated as he is, he won't miss anything.
8:34:38 AM	Vice Chairman Cicero Note: Sacre, Candace	If you have any cell phones, I suggest you either turn them off or put them to silent mode.
8:34:46 AM	Vice Chairman Cicero Note: Sacre, Candace	The hearing today is for the purpose of taking evidence in all issues within the scope of this matter, and, at this time, I'd like to have the appearance of counsel, if you would start with Mr. D'Ascenzo.
8:35:02 AM	Atty D'Ascenzo Duke Kentucky Note: Sacre, Candace	Thank you, Your Honor. On behalf of Duke Energy Kentucky, my name is Rocco D'Ascenzo, Deputy General Counsel, 139 East Fourth Street, Cincinnati, Ohio. With me today is David Samford and Allyson Honaker from Goss Samford.
8:35:19 AM	Vice Chairman Cicero Note: Sacre, Candace	Thank you.
8:35:21 AM	Atty Boehm Kroger Note: Sacre, Candace	Good morning, Your Honor. Kurt Boehm, appearing on behalf of the Kroger Company, with the law firm of Boehm, Kurtz & Lowry, 36 East Seventh Street, Suite 1510, Cincinnati, Ohio 45202. I'd also like to enter the appearance of Jody Kyler Cohn.
8:35:37 AM	Vice Chairman Cicero Note: Sacre, Candace	Thank you, and the Attorney General?
8:35:40 AM	Asst Atty Gen McNeil Note: Sacre, Candace	Good morning, Your Honor. Justin McNeil, John Horne, and Michael West on behalf of the Attorney General's Office.

8:35:46 AM	Atty Howard NKU Note: Sacre, Candace	Hello, Mr. Vice Chairman. It's Dennis Howard II with Howard Law, PLLC. The address is 740 Emmett Creek Lane; that's in Lexington, Kentucky. I also have, with Northern Kentucky University, Sara Kelley.
8:36:01 AM	Vice Chairman Cicero Note: Sacre, Candace	Thank you. Anyone else before we get to Staff?
8:36:06 AM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Nguyen?
8:36:08 AM	Asst Gen Counsel Nguyen PSC Note: Sacre, Candace	I think that's it. Good morning, Vice Chair and Commissioner, Quang Nguyen on behalf of Staff, along with Ben Bellamy and Lauren Coltrane.
8:36:14 AM	Vice Chairman Cicero Note: Sacre, Candace	Thank you. Are there any confidentiality matters that need to be addressed before we start?
8:36:23 AM	Atty Samford Duke Kentucky Note: Sacre, Candace	Your Honor, we may have a hearing exhibit later that will require confidential treatment, but, if we use it, we'll make a motion at that time, if it's accepted.
8:36:29 AM	Vice Chairman Cicero Note: Sacre, Candace	That would be fine. and we'll go into confidential session at that point.
8:36:32 AM	Atty Samford Duke Kentucky Note: Sacre, Candace	Thank you, Your Honor.
8:36:34 AM	Vice Chairman Cicero Note: Sacre, Candace	Is there anyone from the public here that would like to make a comment or a statement before we begin? Please come up to the microphone, state your name and place of residence.
8:36:51 AM	PUBLIC COMMENTS - Mr. Erick Karlen Note: Sacre, Candace	Good morning, Commissioners. Erick Karlen, representing Greenlots. Residence is 55 Paramount in Oakland, California. I'm here today to make a few comments in regards to the electrification transportation pilot.
8:37:15 AM	PUBLIC COMMENTS - Mr. Erick Karlen Note: Sacre, Candace	Greenlots is a leading provider of electric vehicle charging software and services, and we are committed to accelerating transportation electrification in Kentucky. We are excited about the prospect of accelerating the market and bringing it to the State of Kentucky and helping to realize the economic development benefits that this presents. (Click on link for further comments.)
8:39:12 AM	Vice Chairman Cicero Note: Sacre, Candace	Thank you. Is there anyone else? Are there any other motions or any other matters before we begin?
8:39:27 AM	Vice Chairman Cicero Note: Sacre, Candace	Mr. D'Ascenzo, would you like to call your first witness?
8:39:30 AM	Atty D'Ascenzo Duke Kentucky Note: Sacre, Candace	Thank you, Your Honor. For its first witness, Duke Energy Kentucky calls Amy Spiller.
8:39:40 AM	Vice Chairman Cicero Note: Sacre, Candace	Witness is sworn.
8:39:59 AM	Atty D'Ascenzo Duke Kentucky - witness Spiller Note: Sacre, Candace	Direct Examination. Good morning, Ms. Spiller. Would you please state your name, position with the company, and business address for the record?

8:40:19 AM Atty D'Ascenzo Duke Kentucky - witness Spiller
Note: Sacre, Candace And did you cause to file direct testimony as well as Responses to Data Requests in this proceeding?

8:40:27 AM Atty D'Ascenzo Duke Kentucky - witness Spiller
Note: Sacre, Candace Do you have any changes or corrections to either of those?

8:40:41 AM Atty D'Ascenzo Duke Kentucky - witness Spiller
Note: Sacre, Candace Would you please walk us through those?

8:43:01 AM Atty D'Ascenzo Duke Kentucky - witness Spiller
Note: Sacre, Candace Thank you, and, with those corrections, do you hereby adopt the testimony and those Data Requests as your testimony for this proceeding?

8:43:13 AM Atty D'Ascenzo Duke Kentucky
Note: Sacre, Candace Your Honor, the witness is available for cross examination.

8:43:19 AM Vice Chairman Cicero
Note: Sacre, Candace Do you have questions?

8:43:20 AM Atty Boehm Kroger
Note: Sacre, Candace No questions, Your Honor.

8:43:21 AM Vice Chairman Cicero
Note: Sacre, Candace Mr. McNeil?

8:43:22 AM Asst Atty Gen McNeil
Note: Sacre, Candace Yes, I have a few.

8:43:25 AM Asst Atty Gen McNeil - witness Spiller
Note: Sacre, Candace Cross Examination. Good morning, Ms. Spiller. I just have a few questions for you, but they do jump around, so bear with me. So, first, on your direct at page 4, and at line 20 and 21, the very last line, you mention the company is increasingly serving customers with underground facilities. Can you just speak big picture of what's the scope of that going forward? How much undergrounding is the company still planning to do?

8:44:54 AM Asst Atty Gen McNeil - witness Spiller
Note: Sacre, Candace Okay, very good, so then, moving on to your direct at page 19, line 12, on the billing questions/requests/complaints, you state 84 percent of Duke Energy Kentucky residential customers are highly satisfied with their overall billing experience. Can you sort of explain or just square that statement with the fee-free proposal and sort of an indication that customers are unhappy with the fees they have to pay?

8:46:10 AM Asst Atty Gen McNeil - witness Spiller
Note: Sacre, Candace So I will follow up with Ms. Quick on that then, so back to direct, at page 15, at line 10, it mentions the pay agent network and the 60 locations Duke Energy Kentucky has for customers to make in-person payments. Can you confirm that, with the fee-free proposal, will the company be altering the number of locations for those in-person payments at all?

8:46:54 AM Asst Atty Gen McNeil - witness Spiller
Note: Sacre, Candace So then, at your direct at page 21, and it goes on to page 22, and you sort of talk about the Smart City initiative and working with municipalities. Can you tell me, are there other customers in these counties that are asking for these Smart City features, multi-use poles? Has it been requested of the company?

8:48:14 AM	Asst Atty Gen McNeil - witness Spiller Note: Sacre, Candace	So my last question will be page 26 of your direct, there, you talk about the company's storm deferral mechanism proposal, and you talk about how the companies work with the Commission as well as the Commission working with other utilities to get deferred assets in place. Has the company ever had a problem getting a regulatory asset for a storm deferral? What prompted this mechanism?
8:49:12 AM	Asst Atty Gen McNeil - witness Spiller Note: Sacre, Candace	Is there any indication that they are doing that now? Customers are paying more than they should?
8:49:42 AM	Asst Atty Gen McNeil Note: Sacre, Candace	No further questions.
8:49:45 AM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Howard?
8:49:46 AM	Atty Howard NKU Note: Sacre, Candace	Yes, one, if I may.
8:49:47 AM	Atty Howard NKU - witness Spiller Note: Sacre, Candace	Ms. Spiller, Ms. Lawler sponsored rebuttal testimony with regard to the storm deferral mechanism. Would she be the witness to answer? If I provide questions, would she be the primary witness on that matter?
8:50:04 AM	Atty Howard NKU Note: Sacre, Candace	Thank you. That's all I have.
8:50:06 AM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Nguyen?
8:50:07 AM	Asst Gen Counsel Nguyen PSC Note: Sacre, Candace	Thank you, Your Honor.
8:50:08 AM	Asst Gen Counsel Nguyen PSC - witness Spiller Note: Sacre, Candace	Cross Examination. Good morning, Ms. Spiller. Could you refer to Duke Kentucky's Responses to Staff's Second Data Request? It's Item 22, and I apologize beforehand, I'll be jumping around just a little bit as well.
8:50:42 AM	Atty D'Ascenzo Duke Kentucky Note: Sacre, Candace	Your Honor, may I approach, please?
8:50:43 AM	Vice Chairman Cicero Note: Sacre, Candace	Yes.
8:50:50 AM	Asst Gen Counsel Nguyen PSC - witness Spiller Note: Sacre, Candace	The question asked about Duke Kentucky's economic initiatives, economic development initiatives, and you provided Responses addressing that, and, in particular, regarding site readiness program, you mentioned that the program had successfully assisted in evaluating 13 existing sites in Northern Kentucky. Can you just provide a little bit more detail in terms of what is meant by successful in assisting with those site-readiness sites?
8:52:31 AM	Asst Gen Counsel Nguyen PSC - witness Spiller Note: Sacre, Candace	So Duke Kentucky's role is with respect to the utility infrastructure and making that as available as possible for that particular site?
8:53:10 AM	Asst Gen Counsel Nguyen PSC - witness Spiller Note: Sacre, Candace	So, I guess, what specifically is Duke Kentucky's role during this process?
8:53:20 AM	Asst Gen Counsel Nguyen PSC - witness Spiller Note: Sacre, Candace	And then, out of the 13 that is - well, what entity or organization then markets that particular site that has been one of the 13 sites that you said has been successful for the site readiness program?

8:54:11 AM	Asst Gen Counsel Nguyen PSC - witness Spiller Note: Sacre, Candace	So, just following up on economic development initiatives, in your testimony you mention that Duke Kentucky is engaged, either at the company level or at the employee level, lots of economic development initiatives that have occurred. You also mention that businesses looking to relocate or expand their facilities also take into account factors such as readily-available building sites, reliable utility service like you just mentioned, flexible workforce training programs, and proximity to a community of customers and business partners. Could you also speak to the importance of environmental, social, and governance factors that businesses are currently, more than ever, focused on in terms of playing a role in locating or expanding their businesses to a certain location, and also how does that fit in with Duke Kentucky's corporate vision?
8:57:37 AM	Asst Gen Counsel Nguyen PSC - witness Spiller Note: Sacre, Candace	The ESG factors, are those in conjunction with, independent of, or driven by Duke Energy, the corporate parent, in terms of Duke Kentucky ESG goals?
8:58:25 AM	Asst Gen Counsel Nguyen PSC - witness Spiller Note: Sacre, Candace	Has there been a lot of discussions that Duke Kentucky's customers, corporate customers, commercial customers, industrial customers, have had with Duke Kentucky in terms of the various ESG factors and what their goals are and how they align with Duke Kentucky in terms of providing electric service to those customers?
8:59:18 AM	Asst Gen Counsel Nguyen PSC - witness Spiller Note: Sacre, Candace	So, I guess, a more specific question following up on the last question, regarding the proposed Green Source Advantage tariff, which as proposed would permit large customers who desire to have access to renewable resources in the wholesale market to meet their corporate sustainability goals, has Duke Kentucky's large commercial and industrial customers expressed significant interest in this type of program?
9:00:20 AM	Asst Gen Counsel Nguyen PSC - witness Spiller Note: Sacre, Candace	Just one last question. Have you read any of the public comments that have been submitted in this case?
9:00:33 AM	Asst Gen Counsel Nguyen PSC - witness Spiller Note: Sacre, Candace	Have you seen a summary of the comment that was submitted by the mayor of the City of Villa Hills with respect to the city's initiative to upgrade its street lighting to LED lights?
9:00:51 AM	Asst Gen Counsel Nguyen PSC - witness Spiller Note: Sacre, Candace	Are you then aware of the concern that was expressed in terms of, from the city's point of view, not having the opportunity to retrofit the existing street lights but requiring the removal and replacement of the structure, which is more costly? The letter questions whether there is a retrofit option for upgrades for the street LED lighting. Is there that particular option currently?
9:01:57 AM	Asst Gen Counsel Nguyen PSC - witness Spiller Note: Sacre, Candace	So are you saying that there is an option to retrofit under the OLE or the ULOS - I've forgotten what the -
9:02:20 AM	Asst Gen Counsel Nguyen PSC Note: Sacre, Candace	Those are all the questions I have. Thank you.
9:02:22 AM	Vice Chairman Cicero Note: Sacre, Candace	Dr. Mathews?

9:02:28 AM Commissioner Mathews - witness Spiller
Note: Sacre, Candace Examination. Remind me, the last rate case, there was a lot of discussion about targeted undergrounding. I believe you wanted to do a surcharge or a rider, so, instead of doing the rider, you - how many of the projects that were proposed as part of the rider have been done in 2019, thirty-nine million dollars, thirty-nine-and-a-half million dollars, outside that rider? I mean, what was the scope of the rider versus what you did in 2019 and what you propose for 2020 and 2121?

9:03:23 AM Commissioner Mathews
Note: Sacre, Candace I don't have any questions.

9:03:25 AM Vice Chairman Cicero - witness Spiller
Note: Sacre, Candace Examination. With regard to the underground facilities, is there an off-set to vegetation management with the more that you put underground that reduces the cycle over the five years?

9:04:06 AM Vice Chairman Cicero - witness Spiller
Note: Sacre, Candace I note, and I'll have questions for one of your other witnesses regarding vegetation management, but there's a 350 percent increase in vegetation management costs over the cycle, and, with trees outside the right of way, the difference is only a hundred thousand dollars over that period of time, so most of the change is due to apparently an increase in contract costs, which is of great concern to the Commission because of the magnitude of the increase.

9:05:46 AM Vice Chairman Cicero - witness Spiller
Note: Sacre, Candace And I understand that there is a demand on certain labor that drives the price up. I would say though that I wanted to do a comparison of Duke Kentucky to some of the other Duke territories, but the submission made by Duke had everything redacted that wasn't specific to Duke Kentucky, which, under a confidentiality submission, I wasn't quite sure why that happened, and I'm certain, in a post-hearing data request, we're going to look to see that other information. But, just on an estimated basis, would you say that Duke Kentucky is higher, lower, or comparable to the other Duke territories?

9:06:35 AM Vice Chairman Cicero - witness Spiller
Note: Sacre, Candace Okay, thank you.

9:06:56 AM Vice Chairman Cicero - witness Spiller
Note: Sacre, Candace I know when you were in here two years ago vegetation management was a big concern, and it's still gone up exponentially from two years ago.

9:07:07 AM Vice Chairman Cicero - witness Spiller
Note: Sacre, Candace Changing a little bit over to the electric vehicles and the initiative that Duke is trying to go forward with, and I know you mentioned corporate governance, social responsibility, climate change, a lot of the good buzz words out there in society today, is Duke Kentucky contributing on a shareholder basis to promote this initiative, or is this all in base rate to Duke customers?

9:07:59 AM Vice Chairman Cicero - witness Spiller
Note: Sacre, Candace And, according to the Duke initiatives, especially by Ms. Lingood, as to make Duke a green company by the year - 2050?

9:08:18 AM Vice Chairman Cicero - witness Spiller
Note: Sacre, Candace So I know that, as a corporate initiative to go in that direction, I would think that there would be some kind of contribution from the company, itself, in order to drive that initiative into the territories that Duke serves. Now, I know you probably can't answer that question, but it is a comment that I have with regard to these type of programs where you're looking for ratepayers to contribute to a growth that demand may or may not be there. I know you have certain corporations, Amazon, L'Oreal, some of the other ones that are looking for renewable energy as part of their portfolio, and, again, that's a corporation governance within their organizations that are promoting that. And I have no issue with going with a renewable energy resource as long as there is a demand that's not socialized and those that are really interested in it want to bear the cost for putting it in place in order to make it happen. I know after a while there probably will be benefit for everyone, but, as long as everybody's contributing towards that goal in the beginning, I think that's probably what Duke should be looking to do also.

9:09:36 AM Vice Chairman Cicero
Note: Sacre, Candace That wasn't really a question, but that's a comment.

9:09:41 AM Commissioner Mathews
Note: Sacre, Candace I have one in that - can I go backwards?

9:09:43 AM Vice Chairman Cicero
Note: Sacre, Candace Sure, jump in, yes.

9:09:45 AM Commissioner Mathews - witness Spiller
Note: Sacre, Candace Examination. When we're talking about ESG, I'm just going to say the question, are you planning to close your fossil - I mean, the assets that Duke Kentucky has are virtually one hundred percent fossil fuel, so does that mean there's a plan to change that generation mix in response to either the Duke Energy larger corporate goals or demand from customers?

9:11:33 AM Commissioner Mathews - witness Spiller
Note: Sacre, Candace So, for EV charging, for example, it would still be fossil generation behind that?

9:11:51 AM Commissioner Mathews - witness Spiller
Note: Sacre, Candace It would be a hard sale that it would be green; it would be just changing emissions from an internal combustion engine to the electricity generation?

9:12:13 AM Commissioner Mathews
Note: Sacre, Candace Sorry I interrupted.

9:12:14 AM Vice Chairman Cicero
Note: Sacre, Candace Not a problem.

9:12:16 AM Vice Chairman Cicero - witness Spiller
Note: Sacre, Candace Examination, I only have one other topic, and that is the Villa Hills as an example was mentioned about the LED street lighting and the two tariffs that you have in place, and given the trend towards LED lighting, is Duke considering modifying a tariff or implementing a new tariff in order to address that where you don't have this - I mean, if you talk about renewable energy, recycling is also one of those things that, rather than tear down everything and build new, why not modify and be able to put LED lighting on existing structure?

9:13:26 AM Vice Chairman Cicero - witness Spiller
Note: Sacre, Candace So the answer is, no, you're not considering a new tariff or modifying the other tariff?

9:13:51 AM	Vice Chairman Cicero - witness Spiller Note: Sacre, Candace	Yes, and, again, this isn't a question. It's a statement, but we're looking to go renewable. Climate change. Certainly, there's DSM programs, and we talk about energy saving through the replacement of incandescent bulbs first with mercury, now with LED, It's obviously one of those trends that is going towards reduction of energy consumption and, hopefully, overall, less demand on what is renewable that can satisfy whatever those requirements are. And if municipalities are looking for that kind of a changeover, I think making it as easy as possible should be one of the goals of Duke as the energy supplier given your comments earlier about trying to move towards at least the electric charging stations where it's a more energy efficient, hopefully different source of energy than East Bend supplying fossil fuel electricity to a green car, but that's just a comment.
9:14:52 AM	Vice Chairman Cicero Note: Sacre, Candace	Mr. D'Ascenzo, do you have redirect?
9:14:55 AM	Atty D'Ascenzo Duke Kentucky Note: Sacre, Candace	Just, I think, two, Your Honor. Thank you.
9:14:58 AM	Atty D'Ascenzo Duke Kentucky - witness Spiller Note: Sacre, Candace	Redirect Examination. Ms. Spiller, just to clarify the record, could you - the corporate goal that you talked about regarding the zero carbon attainment, what year is that?
9:15:13 AM	Atty D'Ascenzo Duke Kentucky - witness Spiller Note: Sacre, Candace	Twenty-fifty, thank you, and do you recall questions about Villa Hills?
9:15:21 AM	Atty D'Ascenzo Duke Kentucky - witness Spiller Note: Sacre, Candace	Do you know whether we have been in negotiations with Villa Hills on franchise?
9:15:32 AM	Atty D'Ascenzo Duke Kentucky Note: Sacre, Candace	Thank you.
9:15:34 AM	Vice Chairman Cicero Note: Sacre, Candace	Thank you. Mr. Boehm?
9:15:36 AM	Atty Boehm Kroger Note: Sacre, Candace	Yes, just very quickly.
9:15:38 AM	Atty Boehm Kroger - witness Spiller Note: Sacre, Candace	Cross Examination. Good morning, Ms. Spiller. You mentioned the Amazon facility?
9:15:45 AM	Atty Boehm Kroger - witness Spiller Note: Sacre, Candace	When is that? I understand there are multiple phases of the facility, is that correct?
9:15:53 AM	Atty Boehm Kroger - witness Spiller Note: Sacre, Candace	When is the first phase going to be online or operational?
9:16:01 AM	Atty Boehm Kroger - witness Spiller Note: Sacre, Candace	Summer of 2020, and then, after that, is there a second phase that there is a timeline for?
9:16:15 AM	Atty Boehm Kroger - witness Spiller Note: Sacre, Candace	And those will be Duke Energy Kentucky customers?
9:16:22 AM	Atty Boehm Kroger Note: Sacre, Candace	Thank you. Those are all the questions I have.
9:16:24 AM	Vice Chairman Cicero Note: Sacre, Candace	Mr. McNeil?
9:16:25 AM	Asst Atty Gen McNeil Note: Sacre, Candace	Nothing further.

9:16:26 AM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Nguyen? Oh, I'm sorry. Mr. Howard?
9:16:29 AM	Atty Howard NKU Note: Sacre, Candace	That's okay. That's fine. No questions from NKU. Thank you.
9:16:33 AM	Asst Gen Counsel Nguyen PSC Note: Sacre, Candace	None for me, Your Honor.
9:16:34 AM	Vice Chairman Cicero Note: Sacre, Candace	Anything else?
9:16:35 AM	Commissioner Mathews Note: Sacre, Candace	(Shook head negatively.)
9:16:35 AM	Vice Chairman Cicero Note: Sacre, Candace	May this witness be excused?
9:16:37 AM	Vice Chairman Cicero Note: Sacre, Candace	Thank you, Ms. Spiller.
9:16:43 AM	Vice Chairman Cicero Note: Sacre, Candace	Mr. D'Ascenzo, do you have another witness?
9:16:45 AM	Atty D'Ascenzo Duke Kentucky Note: Sacre, Candace	We sure do. Thank you, Your Honor. For our next witness, we would call Dr. Roger Morin.
9:17:12 AM	Vice Chairman Cicero Note: Sacre, Candace	Witness is sworn.
9:17:22 AM	Atty D'Ascenzo Duke Kentucky - witness Morin Note: Sacre, Candace	Direct Examination. Good morning, Dr. Morin. Would you please state your name, title, and business address for the record?
9:18:05 AM	Atty D'Ascenzo Duke Kentucky - witness Morin Note: Sacre, Candace	Dr. Morin, did you cause to file testimony and Responses to Data Requests in this proceeding?
9:18:13 AM	Atty D'Ascenzo Duke Kentucky - witness Morin Note: Sacre, Candace	And do you have any changes or corrections to either your direct testimony, your rebuttal testimony, or any of those Data Requests?
9:18:24 AM	Atty D'Ascenzo Duke Kentucky - witness Morin Note: Sacre, Candace	Would you please walk us through that?
9:19:41 AM	Atty D'Ascenzo Duke Kentucky Note: Sacre, Candace	And do you have any changes to your rebuttal?
9:19:47 AM	Atty D'Ascenzo Duke Kentucky - witness Morin Note: Sacre, Candace	Would you please walk us through those?
9:21:46 AM	Atty D'Ascenzo Duke Kentucky Note: Sacre, Candace	Your Honor, just for purposes of the record, Dr. Morin filed corrected exhibits to his rebuttal testimony in the record. We have copies for folks, if they need it, but it was filed yesterday, and we did serve it to parties.
9:22:18 AM	Vice Chairman Cicero Note: Sacre, Candace	Before we begin with Mr. Boehm, I have a quick clarification question.
9:22:24 AM	Vice Chairman Cicero - witness Morin Note: Sacre, Candace	Examination. You updated your ROE from 9.6 to 9.73?
9:22:41 AM	Vice Chairman Cicero - witness Morin Note: Sacre, Candace	So it's not a mistake; you're updating - you're using current data versus other data?
9:22:46 AM	Vice Chairman Cicero Note: Sacre, Candace	That's all I wanted to clarify.
9:22:47 AM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Boehm?

9:22:52 AM Atty Boehm Kroger - witness Morin
Note: Sacre, Candace Cross Examination. Good morning, Dr. Morin. Just real quickly, I was thinking about a - I saw an article this morning about - was it CenterPoint in Texas? You were just discussing the average ROE of the 9.73 was the updated?

9:23:13 AM Atty Boehm Kroger - witness Morin
Note: Sacre, Candace Are you aware of that rate case that was just decided yesterday or the day before?

9:23:20 AM Atty Boehm Kroger - witness Morin
Note: Sacre, Candace Would you accept, subject to check, that the ROE in that case was around 9.4?

9:23:34 AM Atty Boehm Kroger - witness Morin
Note: Sacre, Candace Okay, thank you. Just sort of a non sequitur there. The ROE that you are recommending in this case is 9.8, is that correct?

9:24:17 AM Atty Boehm Kroger - witness Morin
Note: Sacre, Candace Thank you, and Duke has to pay income taxes on its return on equity, is that correct?

9:24:31 AM Atty Boehm Kroger - witness Morin
Note: Sacre, Candace But Duke collects - they collect the taxes that are imposed on the ROE from ratepayers, is that correct?

9:24:43 AM Atty Boehm Kroger - witness Morin
Note: Sacre, Candace And you call this a conversion factor?

9:24:47 AM Atty Boehm Kroger - witness Morin
Note: Sacre, Candace And what is the conversion factor that's applied to the ROE?

9:24:55 AM Atty Boehm Kroger - witness Morin
Note: Sacre, Candace So you multiply the ROE by 1.38 or something like that?

9:25:01 AM Atty Boehm Kroger - witness Morin
Note: Sacre, Candace Right, and that includes federal income taxes and state income taxes and franchise fees, things like that?

9:25:13 AM Atty Boehm Kroger - witness Morin
Note: Sacre, Candace Hypothetically, if an individual investor, if I, went out and bought some stock and, after a year, I earned 9.7 percent on that stock, I would have to pay taxes on that if I sold the stock, correct?

9:25:40 AM Atty Boehm Kroger - witness Morin
Note: Sacre, Candace Right, and so, if I sold it, I would have to pay the capital gains tax, correct?

9:25:45 AM Atty Boehm Kroger - witness Morin
Note: Sacre, Candace And I wouldn't be entitled to gross up that return; nobody would pay my tax bill on that, correct?

9:26:01 AM Atty Boehm Kroger - witness Morin
Note: Sacre, Candace So, in that sense, I would be paying - you would call that 9.7 that I would earn, that would be a pre-tax return, correct?

9:26:16 AM Atty Boehm Kroger - witness Morin
Note: Sacre, Candace The 9.7 that you're recommending for Duke is a post-tax return, right?

9:26:21 AM Atty Boehm Kroger - witness Morin
Note: Sacre, Candace And we can calculate the pre-tax return by multiplying the conversion factor to the 9.7, correct?

9:26:38 AM Atty Boehm Kroger - witness Morin
Note: Sacre, Candace Right, so you're getting sort of an apples to apples if we did that to Duke's return to my personal return, right?

9:26:48 AM Atty Boehm Kroger - witness Morin
Note: Sacre, Candace And Mr. Kollen, in his testimony on page 60, he calculated the pre-tax ROE of the - the ROE that you were requesting at the time was 9.8, right?

9:27:03 AM	Atty Boehm Kroger - witness Morin Note: Sacre, Candace	And, at 9.8, it was - he calculated 13.1 percent?
9:27:13 AM	Atty Boehm Kroger - witness Morin Note: Sacre, Candace	So that that would come down a little bit under your 9.7?
9:27:18 AM	Atty Boehm Kroger - witness Morin Note: Sacre, Candace	And the pre-tax return recommended by the AG is 12 percent, is that right?
9:27:24 AM	Atty Boehm Kroger Note: Sacre, Candace	Thank you. Those are all the questions I have.
9:27:26 AM	Vice Chairman Cicero Note: Sacre, Candace	Thank you. Mr. McNeil?
9:27:33 AM	Asst Atty Gen McNeil - witness Morin Note: Sacre, Candace	Cross Examination. Dr. Morin, good morning, so even acknowledging that you have adjusted your ROE range down and that 9.7 is now the minimum, you relied on forecasted interest rates, correct?
9:27:55 AM	Asst Atty Gen McNeil - witness Morin Note: Sacre, Candace	I'm going to go to page 34 of your rebuttal, if you would, at Line 17, you discuss how you've also adjusted the U.S. Treasury 30-year long-term bond yield forecast down to 3.9 percent, and that's coming down from a 4.2 percent that you used in the direct testimony, correct?
9:28:30 AM	Asst Atty Gen McNeil - witness Morin Note: Sacre, Candace	Do you know what the current 30-year Treasury bond yield is?
9:28:46 AM	Asst Atty Gen McNeil - witness Morin Note: Sacre, Candace	So do you still maintain that the forecasted rates will be higher than - is a more accurate measure of future interest rates than the current rate?
9:30:44 AM	Asst Atty Gen McNeil Note: Sacre, Candace	May I approach, Your Honor?
9:30:46 AM	Vice Chairman Cicero Note: Sacre, Candace	You may.
9:31:17 AM	Asst Atty Gen McNeil - witness Morin Note: Sacre, Candace	This is the Final Order in Commission Case No. 2018-00281, the rate case for Atmos Energy from 2018. If you could turn to page 44, please, at the bottom of that first long paragraph on page 44, the line begins with, "Based on the latest available information," could you read from that line that says, "but the Commission," at the end of it? Do you see that? I can just read it for you. It's the top paragraph, the bottom three lines of the top paragraph. (Click on link for continuation for further quote.)
9:32:26 AM	Asst Atty Gen McNeil - witness Morin Note: Sacre, Candace	So would you accept from that that this Commission prefers to accept the current interest rates?
9:32:47 AM	Asst Atty Gen McNeil - witness Morin Note: Sacre, Candace	Is it true that you also included floatation costs in your calculations?
9:32:55 AM	Asst Atty Gen McNeil - witness Morin Note: Sacre, Candace	Will you turn two pages before that to page 42? That first full paragraph in the middle of the page, it says, "The Commission has not altered its opinion regarding floatation costs and agrees with the Attorney General that floatation costs should be excluded from the ROE analysis." Would you also accept that this Commission rejects floatation costs in the -
9:33:28 AM	Asst Atty Gen McNeil Note: Sacre, Candace	No further questions.

9:33:31 AM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Howard?
9:33:32 AM	Atty Howard NKU Note: Sacre, Candace	None, Mr. Vice Chairman. Thank you.
9:33:34 AM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Nguyen?
9:33:35 AM	Asst Gen Counsel Nguyen PSC Note: Sacre, Candace	No questions, Your Honor.
9:33:37 AM	Vice Chairman Cicero Note: Sacre, Candace	Commissioner Mathews?
9:33:38 AM	Commissioner Mathews Note: Sacre, Candace	No questions. Thank you.
9:33:40 AM	Vice Chairman Cicero Note: Sacre, Candace	I don't have any questions.
9:33:49 AM	Atty Samford Duke Kentucky Note: Sacre, Candace	Your Honor, just a quick housekeeping measure, are we marking this as an exhibit?
9:33:54 AM	Asst Atty Gen McNeil Note: Sacre, Candace	Yes, I'd like to mark it as Attorney General Exhibit 1.
9:33:57 AM	Vice Chairman Cicero Note: Sacre, Candace	Let's mark it as AG Exhibit 1.
9:33:58 AM	ATTORNEY GENERAL EXHIBIT 1 Note: Sacre, Candace Note: Sacre, Candace	ASST ATTY GEN McNEIL - WITNESS MORIN 2018-00281 ATMOS ENERGY CORPORATION ORDER ENTERED 05/07/2019
9:34:06 AM	Vice Chairman Cicero Note: Sacre, Candace	Okay. Now, may this witness be excused?
9:34:08 AM	Atty D'Ascenzo Duke Kentucky Note: Sacre, Candace	Yes, Your Honor.
9:34:14 AM	Atty D'Ascenzo Duke Kentucky Note: Sacre, Candace	Your Honor, if it's okay, I think we're going to take a witness out of order. Mr. Baudino has a flight this afternoon; he has another proceeding, so we spoke earlier and agreed, if it's okay with you, sir, that Mr. Baudino, on behalf of the Attorney General, would take the stand.
9:34:34 AM	Vice Chairman Cicero Note: Sacre, Candace	So my only comment to the two of you is that letting us know on the morning of the hearing is not adequate notice for the Commission to make a decision, so reprimanding the both of you, if you have a witness that needs to be excused, I know that air flight reservations are made well in advance of the day of the hearing, so we're going to let it go through this time, but keep in mind that it's just like the last time when we had Duke witnesses that were excused and then those that were here, taking their testimony, then couldn't answer the questions, so we look at this from the perspective of we're letting it happen, don't let it happen again, okay?
9:35:20 AM	Atty D'Ascenzo Duke Kentucky Note: Sacre, Candace	Understood.
9:35:21 AM	Asst Atty Gen McNeil Note: Sacre, Candace	That would be my mistake, Your Honor.
9:35:23 AM	Vice Chairman Cicero Note: Sacre, Candace	All right. Thank you.

9:35:25 AM	Atty Boehm Kroger Note: Sacre, Candace	Your Honor, I understand that I might also be reprimanded, but I do have a somewhat similar issue. I emailed the parties and Commission Staff yesterday about it, but we discussed this morning about my witness - he has a flight out at 5:50 today - him being allowed to testify after lunch today.
9:35:48 AM	Vice Chairman Cicero Note: Sacre, Candace	And, remember, the Commission is the one that sets the standards, not the parties that are here applying for a rate increase or intervenors or anyone else, so there's a schedule. It's set up. It was set up for three days. Keep that in mind. We're not going to do this in the future. If you have a three-day hearing and you have a witness, he should plan on being here for three days.
9:36:14 AM	Atty Boehm Kroger Note: Sacre, Candace	Thank you, Your Honor. Understood.
9:36:15 AM	Asst Atty Gen McNeil Note: Sacre, Candace	Understood.
9:36:16 AM	Atty D'Ascenzo Duke Kentucky Note: Sacre, Candace	Understood. Thank you, Your Honor.
9:36:18 AM	Vice Chairman Cicero Note: Sacre, Candace	So, Mr. D'Ascenzo, who would you like to call?
9:36:21 AM	Atty D'Ascenzo Duke Kentucky Note: Sacre, Candace	Well -
9:36:22 AM	Vice Chairman Cicero Note: Sacre, Candace	Or, Mr. McNeil, who would you like to call?
9:36:25 AM	Asst Atty Gen McNeil Note: Sacre, Candace	Yes, Your Honor, Mr. Richard Baudino.
9:36:38 AM	Vice Chairman Cicero Note: Sacre, Candace	Witness is sworn.
9:37:12 AM	Asst Atty Gen McNeil - witness Baudino Note: Sacre, Candace	Direct Examination. Would you please just state your name and your business address for the record, please?
9:37:25 AM	Asst Atty Gen McNeil - witness Baudino Note: Sacre, Candace	And are you the same Rick Baudino who submitted direct testimony in this mater and responded to Data Requests?
9:37:33 AM	Asst Atty Gen McNeil - witness Baudino Note: Sacre, Candace	Do you have any additions or corrections to your testimony or to your Responses?
9:37:40 AM	Asst Atty Gen McNeil - witness Baudino Note: Sacre, Candace	So, if you were asked the same questions today, would your answers remain the same?
9:37:45 AM	Asst Atty Gen McNeil Note: Sacre, Candace	The witness is available, Your Honor, for cross.
9:37:47 AM	Vice Chairman Cicero Note: Sacre, Candace	We'll start with Mr. D'Ascenzo. Do you have any?
9:37:51 AM	Atty Samford Duke Kentucky Note: Sacre, Candace	It'd be me, Your Honor.
9:37:52 AM	Atty Samford Duke Kentucky - witness Baudino Note: Sacre, Candace	Cross Examination. Good morning, Mr. Baudino. My name is David Samford. Thank you for being here today. Let's just kinda start, talking about the scope of your testimony. Your testimony is generally related to two subjects - the allowed return on equity for the company and then to respond to testimony offered by Dr. Morin, correct?

9:38:19 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace Are you offering testimony on any other subjects?

9:38:23 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace And your analysis relies primarily upon a discounted cash flow methodology, is that correct?

9:38:37 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace Do you stay informed as to trends in current rate cases across the country?

9:38:43 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace And do you regularly review rate orders from various state regulatory commissions?

9:38:48 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace Does that include the orders of this Commission?

9:38:51 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace Do you routinely review industry trade publications that provide information on rate cases across the country?

9:38:59 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace Are you familiar with reports issued by RRA?

9:39:20 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace Do you happen to know who the publisher of RRA Reports would be?

9:39:26 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace And are they regarded, generally, as authoritative in the areas of which they opine?

9:39:34 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace Are they a trusted source for news?

9:39:39 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace Are you familiar with the phrase "vertically integrated utility?"

9:39:44 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace How would you describe a vertically integrated utility?

9:39:55 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace Okay, and that would include both generation, transmission, and distribution?

9:40:02 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace Would you agree with me that Duke Energy Kentucky is a vertically integrated utility?

9:40:08 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace Are you familiar with the term "delivery utility?"

9:40:11 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace What is a delivery utility?

9:40:25 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace So, in that sense, Duke Energy Kentucky is not a delivery utility?

9:40:29 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace Are you aware of any investor-owned delivery utilities in Kentucky?

9:40:43 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace Let's talk a little bit about some prior cases. You've been to the Commission before, correct?

9:40:49 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace And you've offered testimony in previous cases?

9:40:55 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace And it's been on the same or similar subject matter as what you've opined on in this case?

9:41:00 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace Do you recall testifying in Case No. 2017-00021, which was Duke Energy Kentucky's 2017 electric rate case?

9:41:10 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace Do you happen to remember what your recommended return on equity was in that case?

9:41:17 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace And do you recall what the return on equity actually awarded by the Commission was in that case?

9:41:27 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace So double-check my math, but the authorized ROE was approximately ninety-two and a half basis points higher than your recommendation in that case?

9:41:37 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace Then you also testified, I believe, in 2017-00179 which was Kentucky Power's electric base rate case. Do you recall that?

9:41:50 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace Do you happen to remember what your recommendation was in that proceeding?

9:41:55 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace Subject to check, would you agree with me that it was 8.85 percent?

9:42:01 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace And do you happen to recall what the Commission authorized in that case?

9:42:05 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace Again, subject to check, would you agree with me that it was 9.7 percent?

9:42:11 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace Okay, so, if those two numbers were correct, subject to check, then that means that you were approximately 85 basis points below the Commission's authorized ROE with your recommendation?

9:42:25 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace Let me ask about one more. The Kentucky Utilities case, Case No. 2016-00370, do you happen to recall your recommendation in that case?

9:42:38 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace Subject to check, would you agree maybe it was 9.0 percent?

9:42:46 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace So you don't recall probably what the Commission authorized in that case?

9:42:51 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace Subject to check, again, would you agree with me that perhaps it was 9.7?

9:42:58 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace And so, based upon that, then, again, your recommendation was 70 basis points below the actual award?

9:43:07 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace Okay, so, if we were to take those three cases, the three most recent cases you've testified in in Kentucky, on average, again, subject to check, and I'm not a math major, but would you agree with me that your recommendation, historically, has been about eighty-two-and-a-half basis points below what the Commission has authorized?

9:43:32 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace So, if we added eighty-two-and-a-half basis points to your current recommendation - your current recommendation is 9.0, correct?

9:43:42 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace And, if we added eighty-two-and-a-half basis points to that, we would get to 9.825 percent?

9:43:50 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace And that's only two-and-a-half basis points away from what Dr. Morin originally recommended in this case, correct?

9:44:02 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace But his original recommendation was 9.8?

9:44:05 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace And he hasn't said that 9.8 is unreasonable. I think what he said was 9.7 was a bare minimum, correct?

9:44:18 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace Are you generally familiar with the range of ROEs authorized in 2019 in electric rate cases in the United States?

9:44:26 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace Would you agree with me that, according to RRA, 9.6 was the average return on equity for electric utilities in the first half of 2019?

9:44:38 AM Atty Samford Duke Kentucky
Note: Sacre, Candace Your Honor, I would like to pass out an exhibit, but this is a confidential exhibit because it's a copyrighted document that's only available through a paid subscription service, so I'd like to mark it as Company Confidential Exhibit 1.

9:44:52 AM Vice Chairman Cicero
Note: Sacre, Candace Okay.

9:44:53 AM Atty Samford Duke Kentucky
Note: Sacre, Candace And it may be possible that we may need to go into confidential session because we're going to be discussing what this document says.

9:44:59 AM Vice Chairman Cicero
Note: Sacre, Candace We can do that if you decide, at the point the questions are asked, that it infringes upon the confidentiality portion of it, we'll go into confidential session.

9:45:07 AM Atty Samford Duke Kentucky
Note: Sacre, Candace Thank you, Your Honor. Can I approach the witness?

9:45:08 AM Vice Chairman Cicero
Note: Sacre, Candace You may.

9:46:16 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace Mr. Baudino, could you identify this document for me?

9:46:37 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace And, prior to today, have you seen this document?

9:46:42 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace What was the occasion of you having looked at this previously?

9:46:52 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace You may have said this already, but what is the date of the publication of this report?

9:46:59 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace So it's approximately three weeks old?

9:47:03 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace And that date, obviously, is well after your testimony was filed in this proceeding?

9:47:09 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace So you didn't have access to a report that hadn't been published yet?

9:47:17 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace So would you agree with me that this report summarizes all of the electric rate case ROEs authorized throughout all of 2019 and not just the ROEs authorized in the first half of 2019?

9:47:33 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace Are you generally familiar with the terminology that RRA uses in its reports?

9:47:53 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace I apologize for not being more specific. Let me try to do that. I asked you earlier if you were familiar with what a vertically integrated utility is, and would you agree with me that that's a term that's used in this document?

9:48:06 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace And I also asked you previously if you were familiar with a delivery utility, and that's another term that's used in this document, correct?

9:48:15 AM Atty Samford Duke Kentucky - witness Baudino
Note: Sacre, Candace Would it be your opinion that your understanding of what constitutes a vertically integrated utility and a delivery utility would be consistent with how RRA would use those terms?

9:48:29 AM Atty Samford Duke Kentucky
Note: Sacre, Candace Your Honor, we probably need to go into confidential session. I'm going to start referring to some numbers here.

9:48:35 AM Vice Chairman Cicero
Note: Sacre, Candace Okay. You ready?

9:48:36 AM Private Mode Activated

9:48:36 AM Private Recording Activated

10:05:28 AM Session Paused

10:20:50 AM Session Resumed

10:24:19 AM Normal Mode Activated

10:24:19 AM Public Recording Activated

10:24:22 AM Vice Chairman Cicero
Note: Sacre, Candace Back on public session. Mr. Nguyen?

10:25:03 AM Vice Chairman Cicero
Note: Sacre, Candace Okay. I think we're good to go.

10:25:06 AM Asst Gen Counsel Nguyen PSC - witness Baudino
Note: Sacre, Candace Cross Examination (cont'd). Mr. Baudino, could you refer to your testimony on page 26?

10:25:21 AM Asst Gen Counsel Nguyen PSC - witness Baudino
Note: Sacre, Candace This is where you describe your - how you developed the estimate for the market risk premium, is that correct?

10:25:31 AM Asst Gen Counsel Nguyen PSC - witness Baudino
Note: Sacre, Candace And you state that you used the - well, your first source that you used was the Value Line Investment Analyzer Plus Edition for November 20, 2019, correct?

10:25:42 AM Asst Gen Counsel Nguyen PSC - witness Baudino
Note: Sacre, Candace And, in the Value Line Investment Analyzer, it includes median earnings as well as book value, correct?

10:25:59 AM Asst Gen Counsel Nguyen PSC - witness Baudino
Note: Sacre, Candace And you included - and you used median earnings and book value growth rates for - let me get this correct - do you use that in arriving at a market rate in determining what the market risk premium is?

10:26:55 AM Asst Gen Counsel Nguyen PSC - witness Baudino
Note: Sacre, Candace Okay, so you used the book value to establish that? There's a mirroring effect between the book value and the earnings, forecasted earnings, for -

10:27:10 AM	Asst Gen Counsel Nguyen PSC - witness Baudino Note: Sacre, Candace	Are there any support in financial literature that advocates the use of book value growth rates as appropriate for use in the CAPM model?
10:28:12 AM	Asst Gen Counsel Nguyen PSC - witness Baudino Note: Sacre, Candace	Is there a reason why there isn't any financial literature that would recommend using book value in terms of developing an analysis for a CAPM analysis or even a DCF analysis?
10:28:31 AM	Asst Gen Counsel Nguyen PSC - witness Baudino Note: Sacre, Candace	Yes, so why wouldn't there be any support in the financial literatures that would support the use of book value in a CAPM analysis or a DCF analysis?
10:29:16 AM	Asst Gen Counsel Nguyen PSC - witness Baudino Note: Sacre, Candace	So you don't think that there's anything inherent in the use of book value that would be reliable in determining a market risk premium using a CAPM analysis or a DCF analysis?
10:30:15 AM	Asst Gen Counsel Nguyen PSC - witness Baudino Note: Sacre, Candace	So can you refer to your testimony, Exhibit RAB-6? Let me know when you're there.
10:30:33 AM	Asst Gen Counsel Nguyen PSC - witness Baudino Note: Sacre, Candace	This calculates the historical market premium using the CAPM analysis, is that correct?
10:30:44 AM	Asst Gen Counsel Nguyen PSC - witness Baudino Note: Sacre, Candace	The long-term annual income return on long-term treasury bonds, at the very top, that's reflection of a 20-year treasury bond, is that correct?
10:31:00 AM	Asst Gen Counsel Nguyen PSC - witness Baudino Note: Sacre, Candace	And then, at the bottom of the exhibit, afer you've arrived at the historical market premium, the 6.9 percent, you use the current 30-year treasury bond yield. Why did you use the 30-year treasury bond and also the 20-year treasury bond in this particular analysis?
10:32:30 AM	Asst Gen Counsel Nguyen PSC - witness Baudino Note: Sacre, Candace	Can you refer now back to your testimony on page 28? And this is regarding the termination of a risk-free rate.
10:32:45 AM	Asst Gen Counsel Nguyen PSC - witness Baudino Note: Sacre, Candace	And, for that analysis, using the Duff & Phelps normalized risk-free rate, can you explain whether the other components and variables in calculating CAPM were normalized in the manner as the risk-free rates, or were they still in nominal terms?
10:33:14 AM	Asst Gen Counsel Nguyen PSC - witness Baudino Note: Sacre, Candace	Sure, so the formula for the CAPM analysis, so for other than the risk-free rates, the other components of that formula, were they in nominal terms, or were they normalized as what was done for the risk-free rate, using the Duff & Phelps normalized risk-free rate?
10:34:35 AM	Asst Gen Counsel Nguyen PSC - witness Baudino Note: Sacre, Candace	So, the normalized risk-free rate, does it or does it not take into account the effect of inflation?
10:34:52 AM	Asst Gen Counsel Nguyen PSC - witness Baudino Note: Sacre, Candace	Does - the Duff & Phelps normalized risk-free rate, does that risk-free rate take into account the effects of inflation?
10:35:15 AM	Asst Gen Counsel Nguyen PSC - witness Baudino Note: Sacre, Candace	You've reviewed Dr. Morin's testimony and rebuttal testimony, correct?
10:35:20 AM	Asst Gen Counsel Nguyen PSC - witness Baudino Note: Sacre, Candace	And he employs empirical CAPM analysis, correct?

10:35:26 AM Asst Gen Counsel Nguyen PSC - witness Baudino
Note: Sacre, Candace And you do not?

10:35:28 AM Asst Gen Counsel Nguyen PSC - witness Baudino
Note: Sacre, Candace Can you explain why you chose not to use the empirical CAPM analysis?

10:37:15 AM Asst Gen Counsel Nguyen PSC - witness Baudino
Note: Sacre, Candace And is there a reason why you did not use Zacks or - I forgot what the other -

10:37:24 AM Asst Gen Counsel Nguyen PSC - witness Baudino
Note: Sacre, Candace Yeah, that's it. Was there any reason you did not use Zacks or Yahoo Finance in arriving at the market premium, market risk premium?

10:39:18 AM Asst Gen Counsel Nguyen PSC
Note: Sacre, Candace Those are all the questions I have. Thank you.

10:39:20 AM Vice Chairman Cicero
Note: Sacre, Candace Commissioner Mathews?

10:39:22 AM Commissioner Mathews
Note: Sacre, Candace (Shook head negatively.)

10:39:24 AM Vice Chairman Cicero - witness Baudino
Note: Sacre, Candace Examination. I probably could have asked this to Dr. Morin, but, since you're an outside consultant and expert, I'll ask them of you. Would you agree that ROE calculations are dynamic in that they incorporate estimates for several variables that, depending on who performs the analysis, can result in a wide ROE range?

10:40:41 AM Vice Chairman Cicero - witness Baudino
Note: Sacre, Candace So, given your comments, the fact that you said this is one of the closer calculations for ROE from opposing positions?

10:40:57 AM Vice Chairman Cicero - witness Baudino
Note: Sacre, Candace And the fact that the variables are - he includes flotation costs; you do not. He uses forecasted interest rates; you do not. That there is no specific formula that incorporates variables that anyone could take and say, "This is specifically what the ROE should be?"

10:42:07 AM Vice Chairman Cicero - witness Baudino
Note: Sacre, Candace And so I only ask the questions because, from the Commission's perspective, they have to analyze the results that you determined were valid. In the case of Dr. Morin, his results. And the Commission will take those into consideration, do their own analysis, and there will be an ROE that's probably going to be somewhere between what you advise you believe is correct and what an applicant believes their ROE is the correct ROE.

10:42:44 AM Vice Chairman Cicero
Note: Sacre, Candace I don't have any other questions. Mr. McNeil, do you have redirect?

10:42:47 AM Asst Atty Gen McNeil
Note: Sacre, Candace Just a couple of questions, Your Honor. Thank you.

10:42:51 AM Asst Atty Gen McNeil - witness Baudino
Note: Sacre, Candace Redirect Examination. Mr. Baudino, do you recall the company counsel walking you through averages in relation to your recommendation and averages in the RRA report?

10:43:07 AM Asst Atty Gen McNeil - witness Baudino
Note: Sacre, Candace In the RRA report, you're familiar with those numbers, correct?

10:43:13 AM Asst Atty Gen McNeil - witness Baudino
Note: Sacre, Candace Is it an average of a range?

10:43:28 AM Asst Atty Gen McNeil - witness Baudino
Note: Sacre, Candace If your opinion, what would happen if commissions only stuck to awarding ROEs based on averages?

10:44:59 AM	Asst Atty Gen McNeil Note: Sacre, Candace	No further questions.
10:45:00 AM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Samford, do you have any other questions?
10:45:02 AM	Atty Samford Duke Kentucky Note: Sacre, Candace	Just one, real quick.
10:45:05 AM	Atty Samford Duke Kentucky - witness Baudino Note: Sacre, Candace	Recross Examination. Dr. Baudino, do investors look at the return on equity that's authorized when making investment decisions?
10:45:19 AM	Atty Samford Duke Kentucky - witness Baudino Note: Sacre, Candace	And is that the same for analysts?
10:45:26 AM	Atty Samford Duke Kentucky - witness Baudino Note: Sacre, Candace	Let me rephrase the question. Do analysts also look at a company's return on equity when making evaluation judgments or when looking at it from a financial perspective?
10:46:02 AM	Atty Samford Duke Kentucky - witness Baudino Note: Sacre, Candace	And do they compare - the return on equity that's awarded to one company, do they compare that to other companies' authorized ROEs?
10:46:16 AM	Atty Samford Duke Kentucky - witness Baudino Note: Sacre, Candace	And can that impact a company's relative ability to attract capital?
10:47:07 AM	Atty Samford Duke Kentucky Note: Sacre, Candace	Thank you. No further questions, Your Honor.
10:47:09 AM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Boehm?
10:47:10 AM	Atty Broehm Kroger Note: Sacre, Candace	Nothing, Your Honor.
10:47:11 AM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Howard, anything else?
10:47:14 AM	Atty Howard NKU Note: Sacre, Candace	Mr. Vice Chairman, if I may have just a moment, I might have a question, if I can locate one document.
10:47:39 AM	Atty Howard NKU - witness Baudino Note: Sacre, Candace	Cross Examination. Mr. Baudino, during the month of January, were you watching the market as it went through its up and down on any given day?
10:47:51 AM	Atty Howard NKU - witness Baudino Note: Sacre, Candace	The stock market, and, particularly, the S&P.
10:48:04 AM	Atty Howard NKU - witness Baudino Note: Sacre, Candace	Would you agree that utilities are a traditional defensive play?
10:48:12 AM	Atty Howard NKU - witness Baudino Note: Sacre, Candace	And, if the market's in a downturn, the investors are more likely to migrate to utility companies, correct?
10:48:46 AM	Atty Howard NKU - witness Baudino Note: Sacre, Candace	So, while the ROE is indeed a number at which the investors look, they also look at the state of the market as a whole?
10:49:05 AM	Atty Howard NKU - witness Baudino Note: Sacre, Candace	And, indeed, during the month of January, would you agree that the market was in a significant downturn as a whole?
10:49:28 AM	Atty Howard NKU - witness Baudino Note: Sacre, Candace	But would you agree that during the month of January of this year that the utility companies climbed a significant percentage as a whole, the S&P utility sector?
10:50:12 AM	Atty Howard NKU - witness Baudino Note: Sacre, Candace	And could you provide that by way of a post-hearing data request?

10:50:16 AM	Vice Chairman Cicero Note: Sacre, Candace	That's fine.
10:50:17 AM	POST-HEARING DATA REQUEST Note: Sacre, Candace	ATTY HOWARD NKU - WITNESS BAUDINO JANUARY 2020 S&P UTILITY SECTOR PERCENTAGE OF RETURN
10:50:18 AM	Atty Howard NKU Note: Sacre, Candace	But I'd like to ask one more question, if I may, Mr. Vice Chairman.
10:50:21 AM	Vice Chairman Cicero Note: Sacre, Candace	You may. My only comment is we will expect that as a written post-hearing data request from you, and we'll set the dates at the end of the hearing, okay?
10:50:31 AM	Atty Howard NKU Note: Sacre, Candace	Yes, and maybe I can even avoid that by simply asking one question, if I may.
10:50:34 AM	Vice Chairman Cicero Note: Sacre, Candace	Sure, uh-huh.
10:50:35 AM	Atty Howard NKU - witness Baudino Note: Sacre, Candace	Cross examination (cont'd). Would you agree that as of January 29th that the S&P utility sector had climbed point-one percent during the month of January, on pace for its best month since June of 2016?
10:51:07 AM	Atty Howard NKU - witness Baudino Note: Sacre, Candace	Unfortunately, I don't have that.
10:51:11 AM	Atty Howard NKU Note: Sacre, Candace	If I may -
10:51:12 AM	Vice Chairman Cicero Note: Sacre, Candace	You may approach.
10:52:25 AM	Atty Howard NKU - witness Baudino Note: Sacre, Candace	Would you accept that subject to check?
10:52:29 AM	Atty Samford Duke Kentucky Note: Sacre, Candace	Your Honor, I've got to make an objection -
10:52:32 AM	Atty Howard NKU Note: Sacre, Candace	I'll be glad to -
10:52:32 AM	Atty Samford Duke Kentucky Note: Sacre, Candace	- because there's been no foundation for what this document is, and we have not seen copies.
10:52:34 AM	Vice Chairman Cicero Note: Sacre, Candace	I would say that there has to be some source for the information rather than just -
10:52:40 AM	Atty Howard NKU Note: Sacre, Candace	And the witness had asked that I present that on the docket, what he was being asked about.
10:52:43 AM	Vice Chairman Cicero Note: Sacre, Candace	Right, I understand.
10:52:45 AM	Atty Howard NKU Note: Sacre, Candace	I can present a post-hearing data request.
10:52:47 AM	Vice Chairman Cicero Note: Sacre, Candace	That would be the best way to do it.
10:52:56 AM	Vice Chairman Cicero Note: Sacre, Candace	And I appreciate the fact that you're approaching it in that manner.
10:52:57 AM	POST-HEARING DATA REQUEST Note: Sacre, Candace Note: Sacre, Candace	ATTY HOWARD NKU - WITNESS BAUDINO JANUARY 29, 2020 S&P UTILITY SECTOR MARKET PERCENTAGE OF RETURN INCREASE

10:53:01 AM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Howard, do you have anything else?
10:53:02 AM	Atty Howard NKU Note: Sacre, Candace	That's it, Mr. Vice Chairman.
10:53:05 AM	Atty Samford Duke Kentucky Note: Sacre, Candace	Mr. Vice Chairman, may I ask one more question based upon the topic he just asked?
10:53:10 AM	Vice Chairman Cicero Note: Sacre, Candace	I'll let you go, then we'll go back to Staff. Go ahead.
10:53:13 AM	Atty Samford Duke Kentucky - witness Baudino Note: Sacre, Candace	Recross Examination. Mr. Baudino, Dr. Baudino, do you happen to know if Duke trades at a discount to its peer group?
10:53:27 AM	Atty Samford Duke Kentucky - witness Baudino Note: Sacre, Candace	That, if you were to take all the utilities in that subgroup with the S&P 500, is Duke at a discount compared to other utilities, or is it a premium?
10:53:44 AM	Atty Samford Duke Kentucky - witness Baudino Note: Sacre, Candace	Is it a higher price or a lower price?
10:53:53 AM	Atty Samford Duke Kentucky Note: Sacre, Candace	We can ask it as a post-hearing data question.
10:53:56 AM	Vice Chairman Cicero Note: Sacre, Candace	Yeah, because I think there are so many variables that go into what creates a stock price that, for him to make that statement, I would question whether he could answer it.
10:54:03 AM	Atty Samford Duke Kentucky Note: Sacre, Candace	I thought the answer would just be "yes."
10:54:04 AM	POST-HEARING DATA REQUEST Note: Sacre, Candace Note: Sacre, Candace	ATTY SAMFORD DUKE KENTUCKY - WITNESS BAUDINO DUKE ENERGY PEER GROUP STOCK STATUS - DISCOUNT OR PREMIUM
10:54:08 AM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Nguyen, do you have any more questions?
10:54:09 AM	Asst Gen Counsel Nguyen PSC Note: Sacre, Candace	Nothing further, Your Honor.
10:54:10 AM	Vice Chairman Cicero Note: Sacre, Candace	Commissioner Mathews?
10:54:11 AM	Commissioner Mathews Note: Sacre, Candace	(Shook head negatively,)
10:54:12 AM	Vice Chairman Cicero Note: Sacre, Candace	Does anybody else have any questions for this witness?
10:54:14 AM	Vice Chairman Cicero Note: Sacre, Candace	May this witness be excused?
10:54:16 AM	Vice Chairman Cicero Note: Sacre, Candace	Thank you, Mr. Baudino.
10:54:25 AM	Atty Samford Duke Kentucky Note: Sacre, Candace	Your Honor, I move to introduce the company's two exhibits.
10:54:27 AM	Vice Chairman Cicero Note: Sacre, Candace	Yes, please do. so we're going to introduce Duke Exhibit 1 as Confidential and Duke Exhibit 2?
10:54:34 AM	Atty Samford Duke Kentucky Note: Sacre, Candace	Yes, sir.
10:54:36 AM	DUKE EXHIBIT 2 Note: Sacre, Candace	ATTY SAMFORD DUKE KENTUCKY - WITNESS BAUDINO

	Note: Sacre, Candace	STATEMENT BY JEROME H. POWELL BEFORE COMMITTEE ON FINANCIAL SERVICES U.S. HOUSE OF REPRESENTATIVES FEBRUARY 11, 2020
10:54:37 AM	Vice Chairman Cicero Note: Sacre, Candace	Let them be entered into the record, and, at this point, we have another witness that needs to be called out of order, Mr. Boehm?
10:54:44 AM	Atty Boehm Kroger Note: Sacre, Candace	Your Honor, the arrangement we had was that he would go after lunch.
10:54:50 AM	Vice Chairman Cicero Note: Sacre, Candace	After lunch?
10:54:51 AM	Atty Boehm Kroger Note: Sacre, Candace	Yes.
10:54:52 AM	Vice Chairman Cicero Note: Sacre, Candace	Okay, so are we back on to, Mr. D'Ascenzo, your witnesses?
10:54:55 AM	Atty D'Ascenzo Duke Kentucky Note: Sacre, Candace	Yes, Your Honor, thank you. For its next witness, Duke Energy Kentucky would call Melissa Abernathy.
10:55:13 AM	Vice Chairman Cicero Note: Sacre, Candace	Witness is worn.
10:55:23 AM	Atty D'Ascenzo Duke Kentucky - witness Abernathy Note: Sacre, Candace	Direct Examination. Good morning. Would you please state your name, title, and business address for the record, please?
10:55:42 AM	Atty D'Ascenzo Duke Kentucky - witness Abernathy Note: Sacre, Candace	And, Ms. Abernathy, did you cause to file direct testimony and Responses to Data Requests in this proceeding?
10:55:50 AM	Atty D'Ascenzo Duke Kentucky - witness Abernathy Note: Sacre, Candace	Do you have any corrections or changes to either of those?
10:55:55 AM	Atty D'Ascenzo Duke Kentucky - witness Abernathy Note: Sacre, Candace	And, if you were asked those same questions, then, today, your answers would be the same?
10:56:00 AM	Atty D'Ascenzo Duke Kentucky Note: Sacre, Candace	Thank you, Your Honor. The witness is available for cross examination.
10:56:03 AM	Vice Chairman Cicero Note: Sacre, Candace	Thank you. Mr. Boehm?
10:56:05 AM	Atty Boehm Kroger Note: Sacre, Candace	No questions for this witness.
10:56:06 AM	Vice Chairman Cicero Note: Sacre, Candace	Mr. McNeil?
10:56:07 AM	Asst Atty Gen McNeil Note: Sacre, Candace	I have no questions, Your Honor.
10:56:09 AM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Howard?
10:56:10 AM	Atty Howard NKU Note: Sacre, Candace	No questions, Mr. Vice Chairman.
10:56:11 AM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Nguyen?
10:56:12 AM	Asst Gen Counsel Nguyen PSC Note: Sacre, Candace	Mr. Bellamy will be handling this witness, Your Honor.
10:56:14 AM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Bellamy?
10:56:15 AM	Staff Atty Bellamy PSC Note: Sacre, Candace	Yes, I did have a couple of questions.

10:56:19 AM Staff Atty Bellamy PSC - witness Abernathy
Note: Sacre, Candace Cross Examination. Just looking at your direct testimony, you're responsible for preparing Section B of the Schedules in the Application, is that correct?

10:56:29 AM Staff Atty Bellamy PSC - witness Abernathy
Note: Sacre, Candace Did you actually prepare the spreadsheets or just provided the underlying information?

10:56:40 AM Staff Atty Bellamy PSC - witness Abernathy
Note: Sacre, Candace And those Schedules show how you determined the jurisdictional plant in service and the net plant in service that was used to calculate rates in the base in the forecasted period, is that correct?

10:56:54 AM Staff Atty Bellamy PSC - witness Abernathy
Note: Sacre, Candace Do you have those Schedules in front of you, by chance?

10:56:58 AM Staff Atty Bellamy PSC - witness Abernathy
Note: Sacre, Candace Could you just look at Schedule B-2?

10:57:18 AM Staff Atty Bellamy PSC - witness Abernathy
Note: Sacre, Candace And there's an amount, and I guess this is on the Excel spreadsheet format, so I'm not sure if that's what you actually have in front of you, but there's a Cell E-90, and it basically has an amount. It's two billion seventy-two million, and my understanding is that represents the thirteen-month average of the jurisdictional plant in service for the test period before any adjustments.

10:57:51 AM Staff Atty Bellamy PSC - witness Abernathy
Note: Sacre, Candace Let me see, here. I apologize.

10:57:58 AM Staff Atty Bellamy PSC - witness Abernathy
Note: Sacre, Candace It's actually Schedule, yeah, B-2, page 2 of 2, sorry, and it's down there at Line 9, if you just have the paper, so there's the two billion seventy-two million, and that's the jurisdictional plant in service before any adjustments, correct?

10:58:17 AM Staff Atty Bellamy PSC - witness Abernathy
Note: Sacre, Candace And that's the 13-month average of the plant in service?

10:58:28 AM Staff Atty Bellamy PSC - witness Abernathy
Note: Sacre, Candace And just down in Schedule B-2.3, at page 12 of B-2.3, pages 6 through 7 - or pages 7 through 12 of B-2.3, trying to go through the different classes of property, and then, at the end, they have a sum on page 12.

10:59:09 AM Staff Atty Bellamy PSC - witness Abernathy
Note: Sacre, Candace There at line 13 in the last column there's that number, the two-billion seventy-two million, and that's where you carried that forward up to B-2, is that correct?

10:59:30 AM Staff Atty Bellamy PSC - witness Abernathy
Note: Sacre, Candace And that's the 13-month average, so to get the 13-month average of the plant in service during the forecasted test period, you had to take the additions during the forecasted period, or you had the starting amount of the forecasted period and then the additions and retirements each month to get the ending balance in each month, and then you took a 13-month average of the beginning balance and the ending balance in each month, is that correct?

11:00:13 AM Staff Atty Bellamy PSC - witness Abernathy
Note: Sacre, Candace Okay, so you didn't actually provide the forecasted number; you only provided the six months of actual in the base period, is that correct?

11:00:31 AM Staff Atty Bellamy PSC - witness Abernathy
Note: Sacre, Candace Did you play any role in, not necessarily the forecast for this case, but the company does annual or biannual budgetting, correct, with respect to capital additions and plant in service?

11:00:53 AM	Staff Atty Bellamy PSC - witness Abernathy Note: Sacre, Candace	You're not involved in that at all?
11:00:55 AM	Staff Atty Bellamy PSC Note: Sacre, Candace	Okay, I don't have any more questions for you. Thank you.
11:00:58 AM	Vice Chairman Cicero Note: Sacre, Candace	Commissioner Mathews?
11:01:00 AM	Commissioner Mathews Note: Sacre, Candace	I have none.
11:01:02 AM	Vice Chairman Cicero - witness Abernathy Note: Sacre, Candace	Examination. So, just a clarifying question, you're responsible for actuals, compiling actuals, on plant capital and depreciation?
11:01:10 AM	Vice Chairman Cicero - witness Abernathy Note: Sacre, Candace	Were you responsible for any forecast of depreciation?
11:01:34 AM	Vice Chairman Cicero - witness Abernathy Note: Sacre, Candace	So you give the actual historical portion of it?
11:01:37 AM	Vice Chairman Cicero - witness Abernathy Note: Sacre, Candace	And then, from there, Mr. Spanos took those numbers and did whatever he did with them, and then you put them in the spreadsheet that was provided to Staff?
11:01:51 AM	Vice Chairman Cicero Note: Sacre, Candace	I have no other questions. Mr. D'Ascenzo, do you have any?
11:01:56 AM	Atty D'Ascenzo Duke Kentucky Note: Sacre, Candace	No questions, Your Honor.
11:01:57 AM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Boehm?
11:01:59 AM	Atty Boehm Kroger Note: Sacre, Candace	No questions, Your Honor.
11:02:00 AM	Vice Chairman Cicero Note: Sacre, Candace	Anyone else have any questions?
11:02:02 AM	Vice Chairman Cicero Note: Sacre, Candace	May this witness be excused? Thank you.
11:02:07 AM	Vice Chairman Cicero Note: Sacre, Candace	Okay. Mr. D'Ascenzo?
11:02:09 AM	Atty D'Ascenzo Duke Kentucky Note: Sacre, Candace	All right, for our next witness, we would call John Spanos.
11:02:22 AM	Vice Chairman Cicero Note: Sacre, Candace	Witness is sworn.
11:02:32 AM	Atty D'Ascenzo Duke Kentucky - witness Spanos Note: Sacre, Candace	Direct Examination. Good morning, Mr. Spanos. Would you please state your name, title, and business address for the record?
11:02:52 AM	Atty D'Ascenzo Duke Kentucky - witness Spanos Note: Sacre, Candace	Thank you, and did you cause to file direct testimony, rebuttal testimony, and Responses to Data Requests in this proceeding?
11:03:02 AM	Atty D'Ascenzo Duke Kentucky - witness Spanos Note: Sacre, Candace	And you are also the witness that prepared and is sponsoring the depreciation study in this case, is that true?
11:03:08 AM	Atty D'Ascenzo Duke Kentucky - witness Spanos Note: Sacre, Candace	And do you have any corrections or changes to any of those documents?
11:03:12 AM	Atty D'Ascenzo Duke Kentucky - witness Spanos Note: Sacre, Candace	And, if you were asked those same questions today, your answers would then be the same?

11:03:18 AM	Atty D'Ascenzo Duke Kentucky Note: Sacre, Candace	Thank you. Your Honor, the witness is available for cross examination.
11:03:21 AM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Boehm?
11:03:22 AM	Atty Boehm Kroger Note: Sacre, Candace	No questions, Your Honor.
11:03:23 AM	Vice Chairman Cicero Note: Sacre, Candace	Mr. McNeil?
11:03:24 AM	Asst Atty Gen McNeil Note: Sacre, Candace	I do have some questions. Thank you.
11:03:28 AM	Asst Atty Gen McNeil - witness Spanos Note: Sacre, Candace	Cross Examination. Good morning, Mr. Spanos. We'll start with in regards to the Woodsdale service life, the Woodsdale CT, did you complete your own study of the service life of that unit?
11:03:59 AM	Asst Atty Gen McNeil - witness Spanos Note: Sacre, Candace	The latter, the life span.
11:04:41 AM	Asst Atty Gen McNeil - witness Spanos Note: Sacre, Candace	Okay, but, in the course of that in performing your depreciation study, you did not change, you did not see any reason to change the 40-year life given to you by the company, is that correct?
11:05:11 AM	Asst Atty Gen McNeil - witness Spanos Note: Sacre, Candace	Do you know if Duke Kentucky has any plans to retire the Woodsdale CT?
11:06:05 AM	Asst Atty Gen McNeil - witness Spanos Note: Sacre, Candace	Now, your testimony and study referenced a decommissioning study performed in 2017, is that correct?
11:06:32 AM	Asst Atty Gen McNeil - witness Spanos Note: Sacre, Candace	So, if there's no current plan for retirement, would you agree that that decommissioning study is right now, at best, a best estimate?
11:07:16 AM	Asst Atty Gen McNeil - witness Spanos Note: Sacre, Candace	And you escalated at a rate of two-point-five percent. Is that per year?
11:07:31 AM	Asst Atty Gen McNeil - witness Spanos Note: Sacre, Candace	And then your estimates in your study were of determinable net salvage. They were also based - or they actually included contingency costs as well, is that correct?
11:08:20 AM	Asst Atty Gen McNeil - witness Spanos Note: Sacre, Candace	And that's understood. Say, that the decommissioning goes ahead as planned in 2032 or whenever and it doesn't cost as much and it doesn't eat up that full contingency cost, what happens to that contingency cost? Is that returned to customers in any way?
11:10:06 AM	Asst Atty Gen McNeil - witness Spanos Note: Sacre, Candace	So, in that scenario and even if later corrected, how can we be sure that current customers aren't subsidizing future customers for a cost that might not arise?
11:11:16 AM	Vice Chairman Cicero Note: Sacre, Candace	So, to follow up on your statement, if I understand correctly, you're asking if current ratepayers are going to be responsible for future benefit that could occur if the decommissioning costs are overstated? Is that a correct statement?

11:11:33 AM	Vice Chairman Cicero - witness Spanos Note: Sacre, Candace	Examination. And, basically, I would follow up on that, if you look at the study that was done on the last rate case, I'm curious as to why the decommissioning costs over a two-year period increased so dramatically?
11:12:14 AM	Vice Chairman Cicero - witness Spanos Note: Sacre, Candace	I understand it's a seven-point-four-million-dollar annual increase in depreciation?
11:13:07 AM	Vice Chairman Cicero - witness Spanos Note: Sacre, Candace	Okay, so forgive me for not knowing. What was the primary or what are the primary capital projects that were responsible for a hundred million dollars over the last two years?
11:13:26 AM	Vice Chairman Cicero - witness Spanos Note: Sacre, Candace	Which was the new landfill or the ash pond, or what was it?
11:13:46 AM	Vice Chairman Cicero - witness Spanos Note: Sacre, Candace	There was a hundred million dollars' worth of plant in scrubbers over the last two years?
11:14:12 AM	Vice Chairman Cicero Note: Sacre, Candace	I didn't mean to interrupt your testimony, but go ahead, Mr. McNeil.
11:14:18 AM	Asst Atty Gen McNeil - witness Spanos Note: Sacre, Candace	Cross examination (cont'd). So couldn't a cynical person say that a utility could estimate a short life up front for an asset and then extend it out as needed further down the line? Wouldn't that be a form of intergenerational inequity?
11:16:28 AM	Asst Atty Gen McNeil - witness Spanos Note: Sacre, Candace	Fair enough, so speaking of accuracy, Burns and McDonnell, in that 2017 decommissioning study, they based it on 2017 labor rates and scrap metal value, et cetera, isn't that right?
11:16:46 AM	Asst Atty Gen McNeil - witness Spanos Note: Sacre, Candace	So whether the retirement actually occurs in 2032 or further out, those rates are going to change? The costs for all those things are likely to change, isn't that true?
11:18:23 AM	Asst Atty Gen McNeil - witness Spanos Note: Sacre, Candace	So I think you answered, but I just want to be clear. All costs, including a contingency in a decommissioning study, would be more accurate at the time of decommissioning than one in which you include escalation rates and a contingency before now, is that right?
11:19:14 AM	Asst Atty Gen McNeil - witness Spanos Note: Sacre, Candace	Is it true that Burns and McDonnell, who performed the decommissioning study, they also provide decommissioning service for power plants?
11:19:37 AM	Asst Atty Gen McNeil - witness Spanos Note: Sacre, Candace	So, just briefly, if they do perform decommissioning studies, isn't there, at least, the perception of a conflict of interest? In performing the decommissioning work, itself, isn't there the perception of a conflict of interest for performing the decommissioning study if they haven't yet bid on the actual project when that comes up for work?
11:20:06 AM	Asst Atty Gen McNeil - witness Spanos Note: Sacre, Candace	Sure, that wasn't worded very well. The potential for a company to artificially inflate numbers in a study for which they might be bidding on later so that that cost is higher, isn't that possible?
11:21:12 AM	Asst Atty Gen McNeil Note: Sacre, Candace	That's all I have, Mr. Chairman.
11:21:15 AM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Howard?

11:21:16 AM	Atty Howard NKU Note: Sacre, Candace	No questions, Mr. Chairman.
11:21:17 AM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Nguyen?
11:21:18 AM	Asst Gen Counsel Nguyen PSC Note: Sacre, Candace	Yes, just a couple, Your Honor. Thank you.
11:21:19 AM	Asst Gen Counsel Nguyen PSC - witness Spanos Note: Sacre, Candace	Cross examination. Good morning, Mr. Spanos. Your rebuttal testimony, on page 2, and you've mentioned this in your earlier testimony, you state that the depreciation study results and an increase in the depreciation expense and that was not driven by changes in service lives and net salvage recommended in the study, correct? The increase in the depreciation expense was not as a result of the change in service lives or net salvage values?
11:22:25 AM	Asst Gen Counsel Nguyen PSC - witness Spanos Note: Sacre, Candace	Okay, so on page 12 of your rebuttal, in which you describe the justification for, I'll term it, an accelerated depreciation study is due to "forces of retirement such as obsolescence, technology, and regulations have a much bigger impact on life and net salvage characteristics," is that correct?
11:23:16 AM	Asst Gen Counsel Nguyen PSC - witness Spanos Note: Sacre, Candace	Twelve at the bottom, and lines 6 through 9.
11:23:44 AM	Asst Gen Counsel Nguyen PSC - witness Spanos Note: Sacre, Candace	Yeah, the rebuttal.
11:23:50 AM	Atty Samford Duke Kentucky Note: Sacre, Candace	Can I hand this to him?
11:23:51 AM	Vice Chairman Cicero Note: Sacre, Candace	Yes, you may.
11:24:39 AM	Asst Gen Counsel Nguyen PSC - witness Spanos Note: Sacre, Candace	Okay, so, on the one hand, even though it could be a portion of the increase in the depreciation expense, the service lives, and the net salvage, it is not the primary reason for the increase in the depreciation expense, correct?
11:25:03 AM	Asst Gen Counsel Nguyen PSC - witness Spanos Note: Sacre, Candace	Yeah, the change in service lives and net salvage, but, on the other hand, you use life and net salvage characteristics and the obsolescence, technology, and regulations that may have an impact on those life and net salvage values as justification for a more frequent depreciation study from three to five years, so can you explain why the need to revise the depreciation rates on an accelerated basis if the components that necessitate more frequent studies are not the drivers of the rate change, itself?
11:25:49 AM	Asst Gen Counsel Nguyen PSC - witness Spanos Note: Sacre, Candace	So you say that the change in life and net salvage could drive a more frequent depreciation study, but the change in the expense is not primarily driven by change in the service lives and net salvage values in this case, so why if it's not a primary driver in the increase in the depreciation expense, why is it justification for a depreciation study in less than two, two and a half years since the last one?
11:29:31 AM	Asst Gen Counsel Nguyen PSC - witness Spanos Note: Sacre, Candace	So do you perform depreciation studies for other utilities?

11:29:47 AM Asst Gen Counsel Nguyen PSC - witness Spanos
Note: Sacre, Candace And so, the example that you give, is it specific for Duke Kentucky in terms of the change for overhead conductors now, the technology for that particular piece of equipment as well as the change in the electromechanical relays? Is that something that's just unique to Duke Kentucky?

11:30:48 AM Asst Gen Counsel Nguyen PSC - witness Spanos
Note: Sacre, Candace So you're seeing more frequent depreciation studies being performed by utilities across the United States as a result of these types of changes in equipment and technology?

11:31:31 AM Asst Gen Counsel Nguyen PSC - witness Spanos
Note: Sacre, Candace Do you conduct depreciation studies for any other utilities, any other electric utilities, in Kentucky?

11:31:40 AM Asst Gen Counsel Nguyen PSC - witness Spanos
Note: Sacre, Candace Have you seen more frequent depreciation studies that are required by those electric utilities?

11:32:17 AM Asst Gen Counsel Nguyen PSC - witness Spanos
Note: Sacre, Candace Can you refer to Duke Kentucky's Response - well, let me ask you this. You mentioned that the increase in the depreciation expense as a result of the depreciation study was seven-point-four million dollars, is that correct?

11:32:40 AM Asst Gen Counsel Nguyen PSC - witness Spanos
Note: Sacre, Candace Sure, you mentioned that the impact from - the depreciation rate that's a result of the depreciation study has a seven-point-four-million-dollar impact increase to Duke Kentucky's depreciation expenditures, is that correct?

11:33:06 AM Asst Gen Counsel Nguyen PSC - witness Spanos
Note: Sacre, Candace Okay, so you agree to that amount?

11:33:10 AM Asst Gen Counsel Nguyen PSC - witness Spanos
Note: Sacre, Candace Are you familiar with what Duke Kentucky's base period depreciation expense was as compared to its forecasted test year depreciation expense was?

11:33:41 AM Asst Gen Counsel Nguyen PSC - witness Spanos
Note: Sacre, Candace Subject to check, would you agree that Duke Kentucky's base period depreciation expense was forty-six-point-five million dollars?

11:33:52 AM Asst Gen Counsel Nguyen PSC - witness Spanos
Note: Sacre, Candace And that, subject to check again, do you agree that the company's forecasted test year depreciation expense was fifty-eight million dollars?

11:34:20 AM Asst Gen Counsel Nguyen PSC - witness Spanos
Note: Sacre, Candace Going back to Duke Kentucky's base period versus its forecasted period depreciation expense, would you agree that the difference between the fifty-eight million and the forty-six-point-five million would be eleven and a half million dollars?

11:34:40 AM Asst Gen Counsel Nguyen PSC - witness Spanos
Note: Sacre, Candace Could you explain how the change in the depreciation rates as a result of your depreciation study accounts for 65 percent of the proposed increase?

11:35:33 AM Asst Gen Counsel Nguyen PSC - witness Spanos
Note: Sacre, Candace Okay, fair enough. We'll just provide that as a post-hearing data request.

11:35:37 AM Asst Gen Counsel Nguyen PSC
Note: Sacre, Candace Those are all the questions I have.

11:35:44 AM Vice Chairman Cicero - witness Spanos
Note: Sacre, Candace Examination. So you explained a lot about depreciation and how you did it in your study and life expectancy and changes in technology and other factors that influenced the asset life. Based on the category of the asset life and whether there are subcategories or not, an asset category is basically a self-adjusting measurement because as you add assets at different lives, if it's shorter, for example, then that category, unless it's done in a specific category, is going to adjust with it as well, is it not?

11:37:19 AM Vice Chairman Cicero - witness Spanos
Note: Sacre, Candace Let me use one of your examples. AMI meters versus mechanical meters, asset life is shorter. Do you agree?

11:37:31 AM Vice Chairman Cicero - witness Spanos
Note: Sacre, Candace Which would, in the end, in a meter account, would reduce if you were in a transition period, and you had electromechanic meters and smart meters, the asset life would decline because the new additions would be a shorter life?

11:38:07 AM Vice Chairman Cicero - witness Spanos
Note: Sacre, Candace The only reason why I ask that question is because I'm confirming, again, that the primary driving factor for the seven-point-four-million change is because of capital additions to the generation facility?

11:39:14 AM Vice Chairman Cicero - witness Spanos
Note: Sacre, Candace So I may have a post-hearing data request, but I won't know until later. If I do, it'll be included with whatever staff provides in all of the post-hearing data requests, but it will have to do with the capital improvements made at the generating facility, so it'll be pretty simple. I may already have the answer. That's why I'm not going to say I'm going to actually do a post-hearing data request until I find out.

11:40:17 AM Vice Chairman Cicero - witness Spanos
Note: Sacre, Candace Are you referring to the existing 10 megawatt or the proposed?

11:40:22 AM Vice Chairman Cicero - witness Spanos
Note: Sacre, Candace The existing, so 10 megawatt as part of the 600 and whatever a megawatt is really -

11:40:37 AM Vice Chairman Cicero
Note: Sacre, Candace Mr. D'Ascenzo, do you have redirect?

11:40:40 AM Atty D'Ascenzo Duke Kentucky
Note: Sacre, Candace Just a couple of questions, Your Honor.

11:40:44 AM Atty D'Ascenzo Duke Kentucky - witness Spanos
Note: Sacre, Candace Redirect Examination. Mr. Spanos, do you recall questions about the capital investments that the company has made on generation from the Commission Staff and the Vice Chairman?

11:40:54 AM Atty D'Ascenzo Duke Kentucky - witness Spanos
Note: Sacre, Candace You had mentioned, I believe, some investments at East Bend and the solar facilities. Were there any investments at Woodsdale?

11:41:50 AM Atty D'Ascenzo Duke Kentucky - witness Spanos
Note: Sacre, Candace Thank you, and do you recall questions from Staff's Counsel about work that you've performed for other utilities across the country?

11:42:03 AM Atty D'Ascenzo Duke Kentucky - witness Spanos
Note: Sacre, Candace In performing your depreciation study for Duke Energy Kentucky, did you do anything that was unique or atypical?

11:42:54 AM Atty D'Ascenzo Duke Kentucky - witness Spanos
Note: Sacre, Candace So is it fair to say then, in actually performing the calculations for the depreciation rates that you are supporting, there's nothing unique or atypical?

11:43:18 AM Atty D'Ascenzo Duke Kentucky - witness Spanos
Note: Sacre, Candace Thank you. Do you recall a discussion with Counsel for Staff about forces of retirement justifying depreciation?

11:43:35 AM Atty D'Ascenzo Duke Kentucky - witness Spanos
Note: Sacre, Candace And you discussed the purpose of depreciation is to match the utilization of the asset with the asset's recovery. Do you recall that?

11:43:48 AM Atty D'Ascenzo Duke Kentucky - witness Spanos
Note: Sacre, Candace What happens when there isn't that match?

11:45:15 AM Atty D'Ascenzo Duke Kentucky - witness Spanos
Note: Sacre, Candace And let's talk for a moment about that stranded cost that you just mentioned. Can you explain what that entails?

11:45:55 AM Atty D'Ascenzo Duke Kentucky - witness Spanos
Note: Sacre, Candace And would those ratepayers, at the time of an asset's retirement when there are stranded costs, would they also be paying for whatever new asset has replaced the retired asset?

11:46:59 AM Atty D'Ascenzo Duke Kentucky
Note: Sacre, Candace No further questions, Your Honor.

11:47:01 AM Vice Chairman Cicero
Note: Sacre, Candace So I'm going to follow up on your line of questioning because it feeds right in to the concerns the Commission has at times.

11:47:10 AM Vice Chairman Cicero - witness Spano
Note: Sacre, Candace Examination. When you talk about stranded costs and whether a facility is utilized to its anticipated life, which in the case of coal-fired plants being retired prematurely due to a social desire to go towards cleaner fuel, in those cases, the depreciation has to be accelerated because you'll end up with a possibility of a stranded asset given that that facility which could continue to function is prematurely retired in favor of either socially motivated, politically motivated, scientifically motivated, whatever it happens to be, causes those assets to have to be depreciated at the same time that the new facility is coming on line, is that correct?

11:48:58 AM Vice Chairman Cicero - witness Spanos
Note: Sacre, Candace That's exactly where I was going, so, at this point, East Bend is projected to be retired in 2041, is that correct?

11:49:06 AM Vice Chairman Cicero - witness Spanos
Note: Sacre, Candace And that hasn't changed?

11:49:15 AM Vice Chairman Cicero
Note: Sacre, Candace Thank you. Does anyone else have questions for Mr. Spanos?

11:49:23 AM Vice Chairman Cicero
Note: Sacre, Candace No? May this witness be excused?

11:49:23 AM Atty D'Ascenzo Duke Kentucky
Note: Sacre, Candace Yes, please.

11:49:25 AM Vice Chairman Cicero
Note: Sacre, Candace Thank you very much. Who is your next witness?

11:49:33 AM Atty Samford Duke Kentucky
Note: Sacre, Candace Your Honor, it is Lesley Quick.

11:50:09 AM Vice Chairman Cicero
Note: Sacre, Candace Witness is sworn.

11:50:19 AM Vice Chairman Cicero
Note: Sacre, Candace Mr. Samford?

11:50:21 AM Atty Samford Duke Kentucky - witness Quick
Note: Sacre, Candace Direct Examination. Good morning, Ms. Quick, Would you state your name and title and business address for the record, please?

11:50:33 AM Atty Samford Duke Kentucky - witness Quick
Note: Sacre, Candace And did you cause certain testimony and Responses to Data Requests to be filed in the record in this case?

11:50:39 AM Atty Samford Duke Kentucky - witness Quick
Note: Sacre, Candace And do you have any corrections, changes, additions, or edits to that testimony or Data Request Responses?

11:50:47 AM Atty Samford Duke Kentucky - witness Quick
Note: Sacre, Candace If I were to ask you the same questions, would your answers be the same?

11:50:50 AM Atty Samford Duke Kentucky - witness Quick
Note: Sacre, Candace Is it your desire to have those answers and testimony incorporated in the record of this hearing?

11:50:55 AM Atty Samford Duke Kentucky
Note: Sacre, Candace Your Honor, tender the witness for cross examination.

11:50:57 AM Vice Chairman Cicero
Note: Sacre, Candace Mr. Boehm?

11:50:58 AM Atty Boehm Kroger
Note: Sacre, Candace Yeah, just a few. Thank you.

11:51:00 AM Atty Boehm Kroger - witness Quick
Note: Sacre, Candace Cross Examination. Good morning, Ms. Quick, so you were sponsoring the Fee-Free proposal in this case, is that correct?

11:51:09 AM Atty Boehm Kroger - witness Quick
Note: Sacre, Candace And this is a residential program, is that right?

11:51:15 AM Atty Boehm Kroger - witness Quick
Note: Sacre, Candace Currently, if a residential customer wants to pay with a credit card or a debit card, they're charged a dollar-fifty fee, is that right?

11:51:26 AM Atty Boehm Kroger
Note: Sacre, Candace And so your proposal is that those - you no longer charge that fee, but those costs will be socialized among all other customers, is that right?

11:51:43 AM Atty Boehm Kroger - witness Quick
Note: Sacre, Candace And you've projected - and you've added \$493,000 to the test year revenue requirement, is that right?

11:51:53 AM Atty Boehm Kroger - witness Quick
Note: Sacre, Candace And so my question is, when you came up with the \$493,000 number, did you just take the previous twelve months of what customers charge, all the one-dollar-and-fifty-cent transactions, added them all up, and then did that add up to four hundred and ninety-three thousand?

11:53:21 AM Atty Boehm Kroger - witness Quick
Note: Sacre, Candace Thank you, so you made some assumptions on what the - you assumed that, since you're getting of the dollar-fifty fee, more customers are going to take advantage of this program, correct?

11:53:34 AM Atty Boehm Kroger - witness Quick
Note: Sacre, Candace And so you made that assumption, but then you state in your testimony there's going to be some cost savings associated with the program?

11:53:51 AM Atty Boehm Kroger - witness Quick
Note: Sacre, Candace I think, on page 3 of your rebuttal testimony, line 14, the question is, "Do you agree with Mr. Kollen's claim that there will be offsetting savings from reductions of other expenses that will result from the increased customer participation?" And you responded, "Yes, but the savings are not known and measurable at this time."

11:54:41 AM Atty Boehm Kroger - witness Quick
Note: Sacre, Candace So you agree with Mr. Kollen that there will be cost savings associated with this program that Duke will realize?

11:54:56 AM Atty Boehm Kroger - witness Quick
Note: Sacre, Candace And because they're not known or quantifiable, you didn't reduce your test year costs in order to reflect any savings for the program?

11:55:06 AM Atty Boehm Kroger
Note: Sacre, Candace Thank you. Those are all the questions I have.

11:55:09 AM Vice Chairman Cicero
Note: Sacre, Candace Mr. McNeil?

11:55:11 AM Asst Atty Gen McNeil
Note: Sacre, Candace Thank you.

11:55:14 AM Asst Atty Gen McNeil - witness Quick
Note: Sacre, Candace Cross Examination. Good morning, Ms. Quick. In your direct testimony, pages 3 through 4, you sort of go through different channels that Duke Energy and Duke Energy Kentucky use to collect data. I think 410,000 residential customers say they do surveys through the CX monitor, social media, Fastrack 2.0. I guess my question is, are you using data from across the Duke Energy footprint nationally, or are you drilling down on only Duke Energy Kentucky data when you use it? How do you do that?

11:56:10 AM Asst Atty Gen McNeil - witness Quick
Note: Sacre, Candace So, when you mention specific complaints about the fees, you're talking about Duke Energy Kentucky customers in those complaints?

11:56:33 AM Asst Atty Gen McNeil - witness Quick
Note: Sacre, Candace Okay. Would you say that complaint ranks among one of the top complaints you receive?

11:56:45 AM Asst Atty Gen McNeil - witness Quick
Note: Sacre, Candace Do you know how long that's been the case? Is this recent?

11:57:09 AM Asst Atty Gen McNeil - witness Quick
Note: Sacre, Candace Were you here earlier when Ms. Spiller testified?

11:57:12 AM Asst Atty Gen McNeil - witness Quick
Note: Sacre, Candace When she mentions an 84 percent customer satisfaction rate, does that include these concerns that customers have?

11:57:40 AM Asst Atty Gen McNeil - witness Quick
Note: Sacre, Candace Did you conduct any sort of formal research or informal polling at all among customers of whether they would accept or like or prefer this socialization of the costs among those who choose to pay with cards or electronic check among everybody?

11:58:06 AM Asst Atty Gen McNeil - witness Quick
Note: Sacre, Candace Nothing formal or informal, either, you don't ask customers how they feel about that?

11:58:19 AM Asst Atty Gen McNeil - witness Quick
Note: Sacre, Candace What about the fraud meter tampering fee you were proposing? Why is the company only proposing that now?

11:59:05 AM Asst Atty Gen McNeil - witness Quick
Note: Sacre, Candace Was there an uptick in damage or something that caused the company to look at that right now?

11:59:40 AM Asst Atty Gen McNeil - witness Quick
Note: Sacre, Candace I have just one more question. I skipped over it, so it goes back to the Fee-Free program. Why didn't the company look to ask customers about their opinion on imposing those costs on the entire footprint? Do you plan to, or will you in the future?

12:00:31 PM	Asst Atty Gen McNeil - witness Quick Note: Sacre, Candace	I guess my only thought would be that customers who don't use a card, who pay in person, or write a check every month, they might not find out that they're also paying for everybody else until after this program is implemented?
12:00:59 PM	Asst Atty Gen McNeil Note: Sacre, Candace	Okay. No further questions.
12:01:01 PM	Vice Chairman Cicero - witness Quick Note: Sacre, Candace	Examination. What percentage of your customers pay with a credit card that are now being charged a dollar-and-a-half transaction fee?
12:01:12 PM	Vice Chairman Cicero - witness Quick Note: Sacre, Candace	So 25 percent of your customer base incurs the dollar-and-a-half fee because they want to pay by credit card?
12:01:19 PM	Vice Chairman Cicero - witness Quick Note: Sacre, Candace	So 25 percent of your base, their dollar-and-a-half fee would now be socialized throughout the rest of the system?
12:01:32 PM	Vice Chairman Cicero - witness Quick Note: Sacre, Candace	So, given that Duke is a customer-oriented company, you don't think there's any benefit to doing any type of a survey by mailer inside the billing or anything like that?
12:01:59 PM	Vice Chairman Cicero - witness Quick Note: Sacre, Candace	Your answer is almost counter - it's an oxymoron for Duke because Duke is - almost or most utilities are saying that customers are becoming smarter and they're utilizing smart meters and they want to know their electric usage, and I would think they could understand the dollar-and-a-half processing fee on a transaction that occurs because they use a credit card or don't use a credit card.
12:02:29 PM	Vice Chairman Cicero Note: Sacre, Candace	It was just a clarification for me. I'll have some other questions, but I think we'll go to Mr. Howard.
12:02:34 PM	Atty Howard NKU Note: Sacre, Candace	No questions, Mr. Vice Chairman. Thank you.
12:02:35 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Nguyen?
12:02:37 PM	Asst Gen Counsel Nguyen PSC Note: Sacre, Candace	Ms. Coltrane will be.
12:02:38 PM	Vice Chairman Cicero Note: Sacre, Candace	Ms. Coltrane?
12:02:40 PM	Staff Atty Coltrane PSC - witness Quick Note: Sacre, Candace	Cross Examination. So can you confirm when, with the statement in your direct testimony about the 13 percent average year-over-year growth, I believe that you just provided a response, but what is that percentage based on?
12:02:56 PM	Staff Atty Coltrane PSC - witness Quick Note: Sacre, Candace	And then on that page 9, and, again, you've also briefly touched on this, I believe, that Duke Kentucky expects the growth rate to double once fees are removed, so 26 percent more transactions in 2020 than conducted in 2019. What is that percentage based on?
12:03:07 PM	Commissioner Mathews Note: Sacre, Candace	(Shook head negatively.)
12:03:35 PM	Staff Atty Coltrane PSC - witness Quick Note: Sacre, Candace	Could you provide that study to us in a -

12:03:43 PM Staff Atty Coltrane PSC - witness Quick
Note: Sacre, Candace Now, going to your rebuttal testimony, page 3, you make the statement, and this is kind of leading the question, "The offsetting savings from reductions of other expenses that will result from increased customer participation are not known and measurable." In other words, are you saying that Duke Kentucky didn't make an adjustment for the reduction in expenses related to its proposal to roll the credit card convenience fees into base rates because those reductions are not known and measurable?

12:04:17 PM Staff Atty Coltrane PSC - witness Quick
Note: Sacre, Candace And is it your contention that all adjustments in a forecasted test period must be known and measurable?

12:04:29 PM Staff Atty Coltrane PSC - witness Quick
Note: Sacre, Candace In your opinion, is Duke Kentucky's predicted increase in credit card transactions known and measurable?

12:04:57 PM Staff Atty Coltrane PSC - witness Quick
Note: Sacre, Candace Is the average cost to process any payment type other than credit cards less or more than a dollard-fifty?

12:05:08 PM Staff Atty Coltrane PSC - witness Quick
Note: Sacre, Candace And what is the average cost to Duke Kentucky to process a non-credit card payment?

12:05:27 PM Staff Atty Coltrane PSC
Note: Sacre, Candace I don't believe I have any other questions.

12:05:29 PM Vice Chairman Cicero
Note: Sacre, Candace Commissioner Mathews?

12:05:31 PM Commissioner Mathews
Note: Sacre, Candace (Shook head negatively.)

12:05:32 PM Vice Chairman Cicero - witness Quick
Note: Sacre, Candace Examination. For my benefit, are you accepting credit card payments now at Duke offices without a processing fee?

12:05:44 PM Vice Chairman Cicero - witness Quick
Note: Sacre, Candace So any credit card transaction currently is charged a dollar-and-a-half?

12:05:58 PM Vice Chairman Cicero - witness Quick
Note: Sacre, Candace So, if I come in with a VISA card, who gets the dollar-and-a-half?

12:06:04 PM Vice Chairman Cicero - witness Quick
Note: Sacre, Candace And they would be responsible for paying any fees to the VISA?

12:06:09 PM Vice Chairman Cicero - witness Quick
Note: Sacre, Candace Okay, so Duke currently incurs no cost if a person pays by a credit card; it's all in the transaction fee that they would be charged?

12:06:21 PM Vice Chairman Cicero - witness Quick
Note: Sacre, Candace And the rest of the payments are either by check or electronic means, and those average at fifteen cents each?

12:06:32 PM Vice Chairman Cicero - witness Quick
Note: Sacre, Candace Going to your request for a tampering fee, I think it's \$2,000?

12:06:49 PM Vice Chairman Cicero - witness Quick
Note: Sacre, Candace And what would Duke do with that revenue if they started receiving money from tampering fees that exceeded the cost to Duke? What would happen to that excess?

12:07:22 PM Vice Chairman Cicero - witness Quick
Note: Sacre, Candace Okay, and, going back to one last thing, you said that the 13 percent was doubled because of a study done by an outside third-party consulting firm?

12:07:35 PM Vice Chairman Cicero - witness Quick
Note: Sacre, Candace And do they do just utilities, or do they do other businesses?

12:07:41 PM Vice Chairman Cicero - witness Quick
Note: Sacre, Candace So, from the perspective of whether a utility actually would see a additional doubling, thats an unknown? It's just a general -

12:08:00 PM Vice Chairman Cicero - witness Quick
Note: Sacre, Candace So my only comment is, on the savings, it's declared not know and measurable, but, on the increase in cost, you have used an estimate from an outside party and your historical 13 percent change to come up with the cost amount but no offset?

12:08:38 PM Vice Chairman Cicero
Note: Sacre, Candace That's okay. That's at those jurisdictions. (Inaudible) this one. I don't have any other questions. Mr. Samford, do you?

12:08:45 PM Atty Samford Duke Kentucky
Note: Sacre, Candace Let me just ask a couple, if you will.

12:08:48 PM Atty Samford Duke Kentucky - witness Quick
Note: Sacre, Candace Redirect Examination. Ms. Quick, thank you for your testimony. I think you were asked a little bit earlier about the percentage who pay by electronic means that are the subject of this fee versus those who do not, so, if I heard you correctly, what you said, it's about 25 percent who pay electronically and are subject to this fee?

12:09:10 PM Atty Samford Duke Kentucky - witness Quick
Note: Sacre, Candace Okay, so fee is really - it's a cost of collection, right?

12:09:16 PM Atty Samford Duke Kentucky - witness Quick
Note: Sacre, Candace For the 75 percent who pay by some other channel, there are costs associated with collecting those amounts as well, correct?

12:09:29 PM Atty Samford Duke Kentucky - witness Quick
Note: Sacre, Candace Do you happen to know how those costs are recovered?

12:09:39 PM Atty Samford Duke Kentucky - witness Quick
Note: Sacre, Candace So, if I get a bill in the mail, if I'm a Duke customer and I get a bill in the mail, it's going to have those payment channels already imbedded in that rate, correct?

12:09:53 PM Atty Samford Duke Kentucky - witness Quick
Note: Sacre, Candace And then, if I pay my bill by credit card, I'm, in essence, paying on top of that, correct, because I'm paying the extra dollar-fifty; it's an incremental charge?

12:10:08 PM Atty Samford Duke Kentucky - witness Quick
Note: Sacre, Candace So is there any difference, from a business point of view, between the type of charge that's being used to collect other than the amount involved? It's still -

12:10:22 PM Atty Samford Duke Kentucky
Note: Sacre, Candace That's a bad question, Mr. Chairman.

12:10:26 PM Vice Chairman Cicero
Note: Sacre, Candace I was just letting you go.

12:10:29 PM Atty Samford Duke Kentucky - witness Quick
Note: Sacre, Candace In a general sense, cost of collection is cost of collection, correct?

12:10:37 PM Atty Samford Duke Kentucky - witness Quick
Note: Sacre, Candace Is it - and it's just your opinion, but is it fair and appropriate that some costs of collection would be embedded in base rates and some would be subject to a separate transaction fee?

12:11:13 PM Atty Samford Duke Kentucky - witness Quick
Note: Sacre, Candace If the Commission were to accept the proposal here, that would really make the company pretty similar to other types of businesses that our customers interact with?

12:11:24 PM	Atty Samford Duke Kentucky - witness Quick Note: Sacre, Candace	For instance, if I was to go to a grocery store and I pulled out a credit card, do I generally see a separate credit card transaction on my receipt?
12:11:49 PM	Atty Samford Duke Kentucky - witness Quick Note: Sacre, Candace	You buy groceries. What would be your reaction if you went to a grocery store and you got your receipt and you saw that there was a transaction fee because you chose to use a credit card as opposed to paying cash?
12:12:20 PM	Atty Samford Duke Kentucky - witness Quick Note: Sacre, Candace	So let me think about this a little bit different now. You said that there's other utilities that have gone this way and have transaction fees or have negotiated with vendors to be able to do this. Without revealing anything that's competitively sensitive or anything, how does Duke's negotiated transaction fee compare to other utilities that you're aware of?
12:13:09 PM	Atty Samford Duke Kentucky - witness Quick Note: Sacre, Candace	And, as more customers use this payment channel, that would only serve to increase your leverage in those negotiations because you have higher volumes to deal with?
12:13:19 PM	Atty Samford Duke Kentucky Note: Sacre, Candace	No questions, Your Honor.
12:13:21 PM	Vice Chairman Cicero - witness Quick Note: Sacre, Candace	Examination. So, if I were to ask you that you went to your grocery store and you found out that the grocery store - their pricing was controlled by a government entity and there was no competitive pricing and that their ROE was determined solely by the government entity controlling it and they said, on top of that, we're going to insert the credit card fee but it's going to be buried in that pricing as well, how would you feel about that?
12:13:52 PM	Vice Chairman Cicero - witness Quick Note: Sacre, Candace	It definitely is a hypothetical question. No response needed. I'm just pointing out the fact that it's a different environment than the example used by Mr. Samford in that you are a regulated entity. You are given the opportunity to earn an ROE in a territory that's designated as being Duke's territory, and your customer base is the very base that looks at not only people who want to pay out of their checking account but those who want to pay by credit card, and, believe me, convenience of a credit card, I wholly understand it. I don't quite understand the no net benefit when I would think that that would be one, in particular, that could see a decrease because of the fact that people could pay by a credit card and, therefore, put the burden on the credit card company when it comes time to pay that bill but understanding the idea that you're trying to accomplish, so I do understand that.
12:14:53 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Boehm?
12:14:56 PM	Atty Boehm Kroger Note: Sacre, Candace	No questions, Your Honor.
12:14:57 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. McNeil?
12:14:58 PM	Asst Atty Gen McNeil Note: Sacre, Candace	No further questions.
12:14:58 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Howard?

12:14:59 PM	Atty Howard NKU Note: Sacre, Candace	No.
12:14:59 PM	Vice Chairman Cicero Note: Sacre, Candace	Ms. Coltrane?
12:15:00 PM	Staff Atty Coltrane PSC Note: Sacre, Candace	No questions.
12:15:01 PM	Vice Chairman Cicero Note: Sacre, Candace	May this witness be excused?
12:15:02 PM	Atty Samford Duke Kentucky Note: Sacre, Candace	Yes, Your Honor.
12:15:03 PM	Vice Chairman Cicero Note: Sacre, Candace	Thank you very much, Ms. Quick.
12:15:06 PM	Vice Chairman Cicero Note: Sacre, Candace	So, now, it's a quarter after 12. We're going to take a break until 1:30, so that's an hour and fifteen minutes in case you have to go somewhere, and then we're going to pick it back up, okay? So we are in recess.
12:15:19 PM	Session Paused	
1:32:34 PM	Session Resumed	
1:32:35 PM	Vice Chairman Cicero Note: Sacre, Candace	Okay. We're back on the record. Mr. Samford, do you have any -
1:32:38 PM	Atty Samford Duke Kentucky Note: Sacre, Candace	Yes, one thing that we failed to point out at the beginning of the hearing, Your Honor, was that the proof of publication appearing and notice had been filed, I believe, last Thursday.
1:32:46 PM	Vice Chairman Cicero Note: Sacre, Candace	Yeah, I forgot to ask that.
1:32:55 PM	Vice Chairman Cicero Note: Sacre, Candace	Are we going to go with your witness, Mr. Boehm?
1:32:58 PM	Atty Boehm Kroger Note: Sacre, Candace	Yes, if that's all right, Your Honor.
1:33:00 PM	Vice Chairman Cicero Note: Sacre, Candace	If you would like to call your witness.
1:33:02 PM	Atty Boehm Kroger Note: Sacre, Candace	Thank you, Your Honor. Kroger calls Justin Bieber.
1:33:17 PM	Vice Chairman Cicero Note: Sacre, Candace	Witness is sworn.
1:33:26 PM	Atty Boehm Kroger - witness Bieber Note: Sacre, Candace	Direct Examination. Good afternoon, Mr. Bieber. Can you please state your name and business address for the record?
1:33:41 PM	Atty Boehm Kroger - witness Bieber Note: Sacre, Candace	And did you prepare direct testimony on behalf of the Kroger Company?
1:33:47 PM	Atty Boehm Kroger - witness Bieber Note: Sacre, Candace	Do you have any changes to that testimony?
1:33:49 PM	Atty Boehm Kroger - witness Bieber Note: Sacre, Candace	And, if I asked you the same questions here today, would your answers be the same?
1:33:54 PM	Atty Boehm Kroger Note: Sacre, Candace	Mr. Bieber is available for cross examination.
1:33:57 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. D'Ascenzo or Mr. Samford or Ms. Honaker?
1:34:01 PM	Atty Honaker Duke Kentucky Note: Sacre, Candace	We have no questions.

1:34:03 PM	Vice Chairman Cicero Note: Sacre, Candace	No questions, okay. Mr. McNeil?
1:34:05 PM	Asst Atty Gen McNeil Note: Sacre, Candace	I have no questions.
1:34:06 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Howard?
1:34:07 PM	Atty Howard NKU Note: Sacre, Candace	No questions, Mr. Vice Chairman. Thank you.
1:34:11 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Nguyen?
1:34:12 PM	Asst Gen Counsel Nguyen PSC Note: Sacre, Candace	No questions, Your Honor.
1:34:14 PM	Vice Chairman Cicero Note: Sacre, Candace	Wow, a free pass. I can't believe that.
1:34:31 PM	Vice Chairman Cicero Note: Sacre, Candace	If no one has any questions, the witness may be excused. Thank you for coming up and being sworn in.
1:34:43 PM	Vice Chairman Cicero Note: Sacre, Candace	Is that the only other witness that needs to give testimony this afternoon and we can get back on the regular schedule?
1:34:56 PM	Atty Boehm Kroger Note: Sacre, Candace	And thank you for taking Mr. Bieber out of order.
1:35:00 PM	Atty D'Ascenzo Duke Kentucky Note: Sacre, Candace	Thank you, Your Honor
1:35:00 PM	Vice Chairman Cicero Note: Sacre, Candace	Well, I'm certainly glad he didn't stay since it appears he was very quick.
1:35:06 PM	Vice Chairman Cicero Note: Sacre, Candace	All right, so, Mr. D'Ascenzo, we're back on your witnesses.
1:35:12 PM	Atty Honaker Duke Kentucky Note: Sacre, Candace	We call Renee Metzler.
1:35:33 PM	Vice Chairman Cicero Note: Sacre, Candace	Witness is sworn.
1:35:45 PM	Atty Honaker Duke Kentucky - witness Metzler Note: Sacre, Candace	Direct Examination. Good afternoon. Can you state your name for the record, please?
1:35:51 PM	Atty Honaker Duke Kentucky - witness Metzler Note: Sacre, Candace	And what is your position for the company and our business address?
1:36:00 PM	Atty Honaker Duke Kentucky - witness Metzler Note: Sacre, Candace	And did you cause to file testimony and Responses to Data Requests in this proceeding?
1:36:07 PM	Atty Honaker Duke Kentucky - witness Metzler Note: Sacre, Candace	Do you have any changes or corrections to make to any of those documents?
1:36:21 PM	Atty Honaker Duke Kentucky - witness Metzler Note: Sacre, Candace	And, subject to that change, if I asked you those same questions today, would your answers be the same?
1:36:29 PM	Atty Honaker Duke Kentucky - witness Metzler Note: Sacre, Candace	And is it your desire and intent to have these items incorporated into the proceeding of this case?
1:36:34 PM	Atty Honaker Duke Kentucky - witness Metzler Note: Sacre, Candace	She's available for cross.

1:36:35 PM	Vice Chairman Cicero Note: Sacre, Candace	Thank you.
1:36:36 PM	Atty Boehm Kroger Note: Sacre, Candace	No questions, Your Honor.
1:36:37 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. McNeil?
1:36:39 PM	Asst Atty Gen McNeil Note: Sacre, Candace	Just a couple. Thank you.
1:36:42 PM	Asst Atty Gen McNeil - witness Metzler Note: Sacre, Candace	Cross Examination. Ms. Metzler, good afternoon, in your direct, page 4 through 6, you discuss your involvement in employee retention and recruitment. Is that a large part of your job?
1:37:13 PM	Asst Atty Gen McNeil - witness Metzler Note: Sacre, Candace	So would you say your role is more geared toward the compensation and benefits side of that recruitment and retention?
1:37:22 PM	Asst Atty Gen McNeil - witness Metzler Note: Sacre, Candace	Do you have any involvement in sort of projecting or forecasting the number of employees to be hired or retained?
1:37:34 PM	Asst Atty Gen McNeil - witness Metzler Note: Sacre, Candace	You don't have anything to do with that?
1:37:40 PM	Asst Atty Gen McNeil Note: Sacre, Candace	I have no further questions, Chair.
1:37:42 PM	Atty Howard NKU Note: Sacre, Candace	No questions. Thank you.
1:37:44 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Nguyen?
1:37:45 PM	Asst Gen Counsel Nguyen PSC Note: Sacre, Candace	Mr. Bellamy will be handling this, Your Honor.
1:37:47 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Bellamy?
1:37:49 PM	Staff Atty Bellamy PSC - witness Metzler Note: Sacre, Candace	Cross Examination. I just have a couple of questions for you real quick. At page 14 of your testimony, you talked about percentage raises for exempt and non-exempt/non-union employees, and you basically projected - you had some historical and then indicated, based on raises in other industries, that, for 2020, you would forecast that employees would receive a three-percent raise, is that correct?
1:38:24 PM	Staff Atty Bellamy PSC - witness Metzler Note: Sacre, Candace	For current employees, was there any additional raise that you were forecasting for them with respect to their salary?
1:38:48 PM	Staff Atty Bellamy PSC - witness Metzler Note: Sacre, Candace	Do you account for employees who were not only getting a three-percent raise but are moving up in responsibility and getting more than that?
1:39:00 PM	Staff Atty Bellamy PSC - witness Metzler Note: Sacre, Candace	And then, on page 16 of your testimony, you talked about the union employees, the Utility Workers Union of America, and I think, in their contract there, the Utility Union Workers of America are two-point-five percent each year through 2022. Are you projecting any increase in their salary other than that two-point-five percent?
1:39:57 PM	Staff Atty Bellamy PSC - witness Metzler Note: Sacre, Candace	And then just kinda, at the bottom of 16 on to 17, the International Brotherhood of Electrical Workers, you had two-point-five for 2019, three percent for 2020, and three percent for 2021,

1:40:11 PM Staff Atty Bellamy PSC - witness Metzler
Note: Sacre, Candace Were you projecting any other additional salary increase for those employees?

1:40:32 PM Staff Atty Bellamy PSC - witness Metzler
Note: Sacre, Candace At the end of your testimony, and you don't have to turn there, it's near the very last page, you talk about you're sponsoring Schedules G-2 and G-3 in the rate case. Did you prepare those schedules?

1:40:50 PM Staff Atty Bellamy PSC - witness Metzler
Note: Sacre, Candace But you reviewed them and agreed with the information that was contained in those schedules?

1:40:59 PM Staff Atty Bellamy PSC - witness Metzler
Note: Sacre, Candace With respect to Schedule G-2, it's straight time hours for the base period and then for the forecasted period. That straight time hours, is that all employees, exempt, nonexempt, union, and nonunion?

1:41:23 PM Staff Atty Bellamy PSC - witness Metzler
Note: Sacre, Candace For the entire company, or for all Duke Kentucky? I'm sorry.

1:41:37 PM Staff Atty Bellamy PSC - witness Metzler
Note: Sacre, Candace And then you had the base period there, and there's no projected change in the forecasted period for the straight time hours or overtime hours, for total manhours, and there's a note there. It says, "The regular and straight time hours shown are 2018 labor hours. The company does not budget or forecast labor hours but does not expect to deviate materially from 2018." Is that a statement that you agree with?

1:42:10 PM Staff Atty Bellamy PSC - witness Metzler
Note: Sacre, Candace So, for the forecasted test period, the company doesn't project any material increase in the hours that are represented on this Schedule G-2?

1:42:29 PM Staff Atty Bellamy PSC - witness Metzler
Note: Sacre, Candace Schedule G-3, could you just kind of really briefly explain to me, does this just represent executive compensation in Schedule G-3?

1:43:14 PM Staff Atty Bellamy PSC - witness Metzler
Note: Sacre, Candace Were you responsible for forecasting the increases in both salary and other compensation for the executives?

1:43:28 PM Staff Atty Bellamy PSC - witness Metzler
Note: Sacre, Candace Who was responsible for that forecast?

1:43:34 PM Staff Atty Bellamy PSC - witness Metzler
Note: Sacre, Candace And then he provided you that information, and you then adopted this Schedule G-3?

1:43:54 PM Staff Atty Bellamy PSC - witness Metzler
Note: Sacre, Candace With respect to - and I know this was an issue in previous rate cases with respect to certain union employees receiving defined benefit or the company paying for a defined benefit plan but also matching for a 401(k). In reading your testimony, is it correct that for new employees that no employee is being put on a defined benefit plan, but they're all in a plan that follows a 401(k) contribution and 401(k) matching?

1:44:33 PM Staff Atty Bellamy PSC - witness Metzler
Note: Sacre, Candace With respect to the employees who started on a defined benefit plan, as I understand your testimony, there are some employees who are still in a defined benefit plan if they started on that plan, is that correct?

1:44:50 PM Staff Atty Bellamy PSC - witness Metzler
Note: Sacre, Candace And those employees still do receive the opportunity to contribute to a 401(k) and the company does provide them some matching with respect to their contribution, is that correct?

1:45:05 PM	Staff Atty Bellamy PSC - witness Metzler Note: Sacre, Candace	But I believe, in your testimony, you indicated that for those employees, for the purpose of the rate case, that you excluded the cost of those employees' defined benefit plan, is that accurate?
1:45:32 PM	Staff Atty Bellamy PSC - witness Metzler Note: Sacre, Candace	The defined benefit plan for which the expenses are not included in the rates, are those - it's obviously closed, so no one new is entering it, but are - the benefits that those employees will receive, are they locked as of a certain date, or, as they receive additional increases in salary, will their defined benefit increase?
1:46:58 PM	Staff Atty Bellamy PSC Note: Sacre, Candace	I don't have any other questions.
1:47:00 PM	Vice Chairman Cicero Note: Sacre, Candace	Commissioner Mathews?
1:47:02 PM	Commissioner Mathews Note: Sacre, Candace	I don't have any.
1:47:03 PM	Vice Chairman Cicero - witness Metzler Note: Sacre, Candace	Examination. So, for my benefit, I believe that your predecessor, Mr. Selenski, testified that the defined dollar benefit plan was locked and frozen. That is not the case?
1:47:26 PM	Vice Chairman Cicero - witness Metzler Note: Sacre, Candace	So he was half right and half wrong?
1:47:36 PM	Vice Chairman Cicero - witness Metzler Note: Sacre, Candace	And, actually, I was the one who asked the question, and he did not qualify it that way, so, at any rate, there are still employees in a plan whose benefits are not frozen?
1:47:50 PM	Vice Chairman Cicero - witness Metzler Note: Sacre, Candace	Okay, and Duke has agreed that those should be removed from the rate base because of the Commission's past precedent of indicating you should not earn benefits from two plans at the same time?
1:48:06 PM	Vice Chairman Cicero Note: Sacre, Candace	I don't have any other questions. Ms. Honaker, would you like to redirect?
1:48:12 PM	Atty Honaker Duke Kentucky Note: Sacre, Candace	No.
1:48:14 PM	Vice Chairman Cicero Note: Sacre, Candace	Does anyone else have any other questions of this witness?
1:48:20 PM	Vice Chairman Cicero Note: Sacre, Candace	You may be excused.
1:48:27 PM	Atty Samford Duke Kentucky Note: Sacre, Candace	Your Honor, we'd like to call Retha Hunsicker.
1:48:48 PM	Vice Chairman Cicero Note: Sacre, Candace	Witness is sworn.
1:48:57 PM	Atty Samford Duke Kentucky - witness Hunsicker Note: Sacre, Candace	Direct Examination. Ms. Hunsicker, would you please state your name, business address, and title for the record, please?
1:49:11 PM	Atty Samford Duke Kentucky - witness Hunsicker Note: Sacre, Candace	Did you cause certain testimony and Responses to Data Requests to be filed in the record of this case?
1:49:17 PM	Atty Samford Duke Kentucky - witness Hunsicker Note: Sacre, Candace	Do you have any changes, edits, or corrections to that testimony or Responses?
1:49:19 PM	Atty Samford Duke Kentucky - witness Hunsicker Note: Sacre, Candace	If I were to ask you those same questions, would your answers be the same?

1:49:23 PM	Atty Samford Duke Kentucky - witness Hunsicker Note: Sacre, Candace	Is it your desire and intent to incorporate that testimony and Responses to Data Requests in the record of this case?
1:49:29 PM	Atty Samford Duke Kentucky - witness Hunsicker Note: Sacre, Candace	Your Honor, tender the witness for cross examination.
1:49:31 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Boehm?
1:49:32 PM	Atty Boehm Kroger Note: Sacre, Candace	No questions, Your Honor.
1:49:33 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. McNeil?
1:49:34 PM	Asst Atty Gen McNeil Note: Sacre, Candace	Yes, thank you.
1:49:36 PM	Asst Atty Gen McNeil - witness Hunsicker Note: Sacre, Candace	Good afternoon, Ms. Hunsicker. Your testimony describes the Customer Connect Solutions program and information system upgrade, is that correct?
1:49:51 PM	Asst Atty Gen McNeil - witness Hunsicker Note: Sacre, Candace	New, sure, thank you. Can you tell me, is that still planned to go live in Fall of 2022?
1:50:02 PM	Asst Atty Gen McNeil - witness Hunsicker Note: Sacre, Candace	Is it correct that I thought I read in your testimony that some portions of that will go on line as they are completed and then parts of the system will be on line before that Fall of '22, is that correct?
1:50:35 PM	Asst Atty Gen McNeil - witness Hunsicker Note: Sacre, Candace	So that's when customers will see the full benefit of the program?
1:50:53 PM	Asst Atty Gen McNeil - witness Hunsicker Note: Sacre, Candace	So, September 22, is that when Duke will no longer have the expense of the old system?
1:51:02 PM	Asst Atty Gen McNeil - witness Hunsicker Note: Sacre, Candace	And is it correct that the current information system does not interact with other Duke Energy customer information systems?
1:51:24 PM	Asst Atty Gen McNeil - witness Hunsicker Note: Sacre, Candace	So this change has been a long time coming?
1:51:30 PM	Asst Atty Gen McNeil - witness Hunsicker Note: Sacre, Candace	So, customers, can they expect significant cost savings moving forward?
1:52:11 PM	Asst Atty Gen McNeil - witness Hunsicker Note: Sacre, Candace	Is it correct that the company is including the cost of development and implementation, those O&M expenses of the CIS and its operating income?
1:52:31 PM	Asst Atty Gen McNeil - witness Hunsicker Note: Sacre, Candace	The O&M for the implentation of the new system, that's being included in operating income?
1:52:46 PM	Asst Atty Gen McNeil - witness Hunsicker Note: Sacre, Candace	Last question, so, to your knowledge, Duke has not requested to defer any portion of those expenses as a regulatory asset, has it?
1:53:05 PM	Asst Atty Gen McNeil Note: Sacre, Candace	No further questions.
1:53:07 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Howard?
1:53:08 PM	Atty Howard NKU Note: Sacre, Candace	No, Chairman.
1:53:09 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Nyugen?

1:53:10 PM	Asst Gen Counsel Nguyen PSC Note: Sacre, Candace	Ms. Coltrane will handle this, Your Honor.
1:53:12 PM	Vice Chairman Cicero Note: Sacre, Candace	Ms. Coltrane?
1:53:14 PM	Staff Atty Coltrane PSC - witness Hunsicker Note: Sacre, Candace	Cross Examination. My next set of questions just has to do with the new bill format as proposed as part of the new Customer Connect program. You included as an attachment RH-1 to your direct testimony. I don't believe that you'll have to refer to it but just in case. Can you just confirm that the attachment consists of two different bill formats. There's a condensed bill format, but there also seems to be a fuller, longer version of that bill format with more information available, is that correct?
1:53:36 PM	POST-HEARING DATA REQUEST Note: Sacre, Candace Note: Sacre, Candace	STAFF ATTY COLTRANE PSC - WITNESS HUNSICKER CUSTOMER CONNECT PROPOSED BILL FORMATS
1:53:53 PM	Staff Atty Coltrane PSC - witness Hunsicker Note: Sacre, Candace	Will customers have the option to choose between the bill formats?
1:54:10 PM	Staff Atty Coltrane PSC - witness Hunsicker Note: Sacre, Candace	And how do they go about asking to go with the condensed bill?
1:54:22 PM	Staff Atty Coltrane PSC - witness Hunsicker Note: Sacre, Candace	So there will be some portion of the new bill format that will allow them to make the choice to get the condensed bill?
1:54:30 PM	Staff Atty Coltrane PSC - witness Hunsicker Note: Sacre, Candace	As a post-hearing data request, would you mind providing an example of that on the bill format? I don't believe the ones that were a part of the attachment did that.
1:54:31 PM	POST-HEARING DATA REQUEST Note: Sacre, Candace Note: Sacre, Candace	STAFF ATTY COLTRANE PSC - WITNESS HUNSICKER CUSTOMER CONNECT BILL FORMAT SELECTION EXAMPLE
1:54:45 PM	Staff Atty Coltrane PSC - witness Hunsicker Note: Sacre, Candace	My next set of questions just have to do with the automatic landlord program and the revert to owner program. What is the difference between the two programs?
1:55:43 PM	Staff Atty Coltrane PSC - witness Hunsicker Note: Sacre, Candace	Okay, so, just to confirm, the revert to owner program is going to take the place of the automatic landlord program, is that correct?
1:55:55 PM	Staff Atty Coltrane PSC - witness Hunsicker Note: Sacre, Candace	With regard to the automatic landlord program, is it voluntary?
1:56:05 PM	Staff Atty Coltrane PSC - witness Hunsicker Note: Sacre, Candace	And, as a part of Duke's Responses to Staff's Third Set of Data Requests, Item 38-A, there's a statement, "The automatic transfer does not occur if service in a tenant's name has been disconnected for nonpayment." What happens in those instances?
1:57:08 PM	Staff Atty Coltrane PSC - witness Hunsicker Note: Sacre, Candace	And will that same process occur under the revert to owner program?
1:57:17 PM	Staff Atty Coltrane PSC - witness Hunsicker Note: Sacre, Candace	Same Item 38 but Section B, you state, "As required and directed by the Commission, Duke Kentucky will provide a description of the offered service and the tariff." As a post-hearing data request, will Duke provide the language that Duke Kentucky would include in its tariff for the automatic landlord program?
1:57:18 PM	POST-HEARING DATA REQUEST Note: Sacre, Candace	STAFF ATTY COLTRANE PSC - WITNESS HUNSICKER

Note: Sacre, Candace AUTOMATIC LANDLORD PROGRAM OFFERED SERVICE AND TARIFF LANGUAGE

1:57:44 PM Staff Atty Coltrane PSC - witness Hunsicker
Note: Sacre, Candace In relation to the revert to owner program, in the Third Set of Data Requests, Items 39, you state, "The final design of the revert to owner program is near final." What is the status of the design of that program at this time?

1:58:10 PM Staff Atty Coltrane PSC - witness Hunsicker
Note: Sacre, Candace And, just to confirm, Duke Kentucky is requesting approval for the revert to owner program in this case?

1:58:21 PM Staff Atty Coltrane PSC
Note: Sacre, Candace I don't believe I have any more questions.

1:58:23 PM Vice Chairman Cicero
Note: Sacre, Candace Commissioner Mathews?

1:58:24 PM Commissioner Mathews
Note: Sacre, Candace I don't have any.

1:58:26 PM Vice Chairman Cicero - witness Hunsicker
Note: Sacre, Candace Examination. So what were the total costs to develop this software?

1:58:32 PM Vice Chairman Cicero - witness Hunsicker
Note: Sacre, Candace Your CIS.

1:58:38 PM Vice Chairman Cicero - witness Hunsicker
Note: Sacre, Candace Duke Energy Kentucky.

1:58:44 PM Vice Chairman Cicero - witness Hunsicker
Note: Sacre, Candace And how long do you expect it to last?

1:59:46 PM Vice Chairman Cicero - witness Hunsicker
Note: Sacre, Candace Have you capitalized any of the costs, or do you intend to capitalize any of the costs and amortize them over 15 years?

2:00:02 PM Vice Chairman Cicero - witness Hunsicker
Note: Sacre, Candace So, approximately, somewhere around thirteen million will be capitalized over 15 years?

2:00:09 PM Vice Chairman Cicero - witness Hunsicker
Note: Sacre, Candace Is this an initiative that is being driven by Duke corporate to make all their systems uniform because of incompatibility of acquisition over a period of time?

2:00:31 PM Vice Chairman Cicero - witness Hunsicker
Note: Sacre, Candace What kind of customer expectation will that be?

2:02:26 PM Vice Chairman Cicero - witness Hunsicker
Note: Sacre, Candace Can you give any examples of a customer or customers that have requested some kind of improvement in the data they receive that led Duke to believe there's a need for this type of service?

2:03:29 PM Vice Chairman Cicero - witness Hunsicker
Note: Sacre, Candace So you do do surveys?

2:03:33 PM Vice Chairman Cicero - witness Hunsicker
Note: Sacre, Candace And so, if you did a survey of transaction fees, that would be something that would be viable for Duke?

2:04:23 PM	Vice Chairman Cicero - witness Hunsicker Note: Sacre, Candace	So don't misunderstand, I understand the need for having something like an SAP type of software that is world standardized - companies have to fit the software; the software doesn't fit the company - and the need to improve your data collection and address customer needs as long as you're capitalizing that portion over what you expect the life to be rather than throwing it all in as O&M, I really don't have a problem with it. I would also caution that statements that customers are demanding it without a basis for what the population of customers are, what specifically they're demanding just becomes a generalized term or kind of a nebulous statement that doesn't have a lot of support.
2:05:21 PM	Vice Chairman Cicero Note: Sacre, Candace	I don't have any other comments or questions.
2:05:25 PM	Atty Samford Duke Kentucky Note: Sacre, Candace	No redirect, Your Honor.
2:05:26 PM	Vice Chairman Cicero Note: Sacre, Candace	No redirect. Does anybody else have any questions? May this witness -
2:05:30 PM	Staff Atty Coltrane PSC Note: Sacre, Candace	I have one more question.
2:05:31 PM	Vice Chairman Cicero Note: Sacre, Candace	Oh, I'm sorry. Ms. Coltrane?
2:05:33 PM	Staff Atty Coltrane PSC - witness Hunsicker Note: Sacre, Candace	Recross Examination. In your direct testimony, you had discussed several waivers that Duke Kentucky was seeking. Specifically, I was looking at 807 KAR 5006, Section 7183, as it pertains to the requirement that a bill have a beginning and ending meter reading. Would you mind, as part of a post-hearing data request, provide a sample of both the condensed and the other bill format that would, basically, if the Commission were to approve that waiver, show what the bill format would look like in both instances, the condensed and otherwise?
2:05:34 PM	POST-HEARING DATA REQUEST Note: Sacre, Candace Note: Sacre, Candace	STAFF ATTY COLTRANE PSC - WITNESS HUNSICKER DUKE KENTUCKY REQUEST FOR BEGINNING-ENDING METER READING WAIVER - BILL FORMAT EXAMPLES
2:06:15 PM	Staff Atty Coltrane PSC Note: Sacre, Candace	That's it.
2:06:17 PM	Vice Chairman Cicero Note: Sacre, Candace	May this witness be excused?
2:06:18 PM	Atty Samford Duke Kentucky Note: Sacre, Candace	Yes.
2:06:19 PM	Vice Chairman Cicero Note: Sacre, Candace	You may step down. Thank you.
2:06:21 PM	Atty Samford Duke Kentucky Note: Sacre, Candace	Your Honor, I'd like to call Mr. Mike Moseley.
2:06:49 PM	Vice Chairman Cicero Note: Sacre, Candace	Witness is sworn.
2:06:58 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Samford?
2:07:00 PM	Atty Samford Duke Kentucky Note: Sacre, Candace	Thank you, Your Honor.

2:07:01 PM Atty Samford Duke Kentucky - witness Moseley
Note: Sacre, Candace Direct Examination. Mr. Moseley, would you mind to please state your full name, your title, and business address for the record, please?

2:07:17 PM Atty Samford Duke Kentucky - witness Moseley
Note: Sacre, Candace Did you cause certain testimony and Responses to Data Requests to be filed in the record of this case?

2:07:23 PM Atty Samford Duke Kentucky - witness Moseley
Note: Sacre, Candace Do you have any additions, corrections, or changes to that testimony or Responses?

2:07:27 PM Atty Samford Duke Kentucky - witness Moseley
Note: Sacre, Candace If I was to ask you the same questions, would your answers be the same?

2:07:30 PM Atty Samford Duke Kentucky - witness Moseley
Note: Sacre, Candace Is it your desire and intent to incorporate that testimony and Data Request Responses into the record of this case?

2:07:35 PM Atty Samford Duke Kentucky - witness Moseley
Note: Sacre, Candace Your Honor, I tender the witness for cross examination.

2:07:38 PM Vice Chairman Cicero
Note: Sacre, Candace Mr. Boehm?

2:07:39 PM Atty Boehm Kroger
Note: Sacre, Candace No, questions, Your Honor.

2:07:40 PM Vice Chairman Cicero
Note: Sacre, Candace Mr. McNeil?

2:07:42 PM Asst Atty Gen McNeil
Note: Sacre, Candace I have a few, yes. Thank you.

2:07:44 PM Asst Atty Gen McNeil - witness Moseley
Note: Sacre, Candace Cross Examination. Mr. Moseley, good afternoon. Would you turn, please, to your direct testimony at page 13? There's a question at Line 8. It's "Please explain why Woodsdale being designed for peaking capability is significant." Do you mind reading the rest of the response from 10 to 21?

2:09:21 PM Asst Atty Gen McNeil - witness Moseley
Note: Sacre, Candace Okay, so you would agree that that's a very good description of what Woodsdale's CT unit does and how peaking units, in general, kind of operate?

2:09:33 PM Asst Atty Gen McNeil - witness Moseley
Note: Sacre, Candace Can you ballpark how often the Woodsdale CT runs per day?

2:10:20 PM Asst Atty Gen McNeil - witness Moseley
Note: Sacre, Candace Are there times when the Woodsdale unit will run 24 hours?

2:10:31 PM Asst Atty Gen McNeil - witness Moseley
Note: Sacre, Candace And that was probably 2014 or '13, something like that?

2:10:41 PM Asst Atty Gen McNeil - witness Moseley
Note: Sacre, Candace But you would say that type of run time is infrequent?

2:10:48 PM Asst Atty Gen McNeil - witness Moseley
Note: Sacre, Candace And that, as you read, these units have no problems ramping up or ramping down or coming off from a black start, is that right?

2:11:00 PM Asst Atty Gen McNeil - witness Moseley
Note: Sacre, Candace Let me make sure. The dual fuel conversion to ultra low-sulphur diesel fuel, that was completed in May of 2019, is that right?

2:11:11 PM Asst Atty Gen McNeil - witness Moseley
Note: Sacre, Candace So do you have any opinion as to the useful life of Woodsdale?

2:11:35 PM Asst Atty Gen McNeil - witness Moseley
Note: Sacre, Candace So do you know whether Woodsdale is sort of at that - when setting that 40-year service life, is Woodsdale - its average run time, is it sort of hitting that mark of where it would stay at 40 years, or do you think it's below or above the usage?

2:11:57 PM Asst Atty Gen McNeil - witness Moseley
Note: Sacre, Candace Do you think with proper maintenance, necessary upgrades, et cetera, it could last beyond 2032?

2:12:34 PM Asst Atty Gen McNeil - witness Moseley
Note: Sacre, Candace Are you experiencing that yet with Woodsdale, or have you had trouble getting parts?

2:12:49 PM Asst Atty Gen McNeil
Note: Sacre, Candace Nothing further.

2:12:51 PM Vice Chairman Cicero
Note: Sacre, Candace Mr. Howard?

2:12:53 PM Atty Howard NKU
Note: Sacre, Candace Yes, please, Mr. Vice Chairman.

2:12:54 PM Atty Howard NKU - witness Moseley
Note: Sacre, Candace Cross Examination. Good afternoon, sir. With regard to the Woodsdale units, they run natural gas, but then they've got back-up fuel of low-sulphur diesel, correct?

2:13:08 PM Atty Howard NKU - witness Moseley
Note: Sacre, Candace Have there been occasions over the years when natural gas has not been available to run the Woodsdale units?

2:13:36 PM Atty Howard NKU - witness Moseley
Note: Sacre, Candace And then the propane tank from Todd-Hunter?

2:13:39 PM Atty Howard NKU - witness Moseley
Note: Sacre, Candace And Todd-Hunter is closed?

2:13:42 PM Atty Howard NKU - witness Moseley
Note: Sacre, Candace Thus, the need to convert for dual fuel over to the diesel. Back to the natural gas though, over the past five years, let's just use that timeframe, do you have an estimate as to the number of hours when Woodsdale was not able to run because of the availability of natural gas?

2:14:06 PM Atty Howard NKU - witness Moseley
Note: Sacre, Candace I don't want you to speculate, but do you have a reasonable idea as to the number, or are you guessing?

2:14:19 PM Atty Howard NKU - witness Moseley
Note: Sacre, Candace If natural gas is not available, how quickly can you run on diesel?

2:14:35 PM Atty Howard NKU - witness Moseley
Note: Sacre, Candace How many gallons of diesel do you have on site?

2:14:42 PM Atty Howard NKU - witness Moseley
Note: Sacre, Candace How long will four million gallons of diesel run those units?

2:14:49 PM Atty Howard NKU - witness Moseley
Note: Sacre, Candace And how do you restock the diesel?

2:14:55 PM Atty Howard NKU - witness Moseley
Note: Sacre, Candace How many gallons of diesel will a truck hold?

2:15:03 PM Atty Howard NKU - witness Moseley
Note: Sacre, Candace About nine thousand gallons?

2:15:09 PM Atty Howard NKU - witness Moseley
Note: Sacre, Candace Between eight and nine thousand gallons?

2:15:11 PM Atty Howard NKU - witness Moseley
Note: Sacre, Candace And, again, you've got four million gallons of diesel that'll last you for three days running these units all out, correct?

2:15:22 PM Atty Howard NKU - witness Moseley
Note: Sacre, Candace And, if, again, you don't have access to natural gas and you have to fall back to diesel, it's going to take you a while, wouldn't you think, to fill up that four-million-gallon tank with diesel, running just trucks hauling nine thousand gallons?

2:15:42 PM Atty Howard NKU - witness Moseley
Note: Sacre, Candace I'm just trying to understand how the fuel how long it lasts running at full load?

2:16:22 PM Atty Howard NKU
Note: Sacre, Candace Those are all. Thank you very much.

2:16:25 PM Vice Chairman Cicero - witness Moseley
Note: Sacre, Candace Examination. I'm just curious. How many truck can you receive in a day?

2:16:47 PM Vice Chairman Cicero - witness Moseley
Note: Sacre, Candace So you receive just over a hundred thousand gallons a day. Three days consumes four million gallons?

2:16:55 PM Vice Chairman Cicero - witness Moseley
Note: Sacre, Candace So you might make it to the fourth day before your inventory is expired?

2:17:05 PM Vice Chairman Cicero
Note: Sacre, Candace Mr. Nguyen?

2:17:06 PM Asst Gen Counsel Nguyen PSC
Note: Sacre, Candace Mr. Bellamy.

2:17:07 PM Vice Chairman Cicero
Note: Sacre, Candace Or Mr. Bellamy?

2:17:12 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace Cross Examination. I'm just looking at page 16 of your testimony, and you sponsored a couple of exhibits to the Application that you mentioned at page 16 of your testimony, pages 16 and 17. It's FR-16-7-B, which is at tab 22. Do you have that there? I have copies.

2:17:49 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace You said there, on page 16, that you provided forecasted capital construction budget for the plants contained in FR-16-B and for Mr. Jacobi's use in the forecasted financial data, and at that attachment, which is tab 22, there's eight numerical lines. Number 1 is just normal recurring construction, and then there's lines 2 through 8 which show specific projects that are larger than five percent of the capital budget for that year. Is that what it is?

2:18:41 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace I'm curious which - and I know you're responsible for providing the plant or the projected plant additions for generation, correct? And Mr. Norton would have provided the projected capital expenditures for distribution and transmission, is that correct?

2:19:06 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace So which projects here, as shown on tab 22, would have been projects that you would have provided the projected capital expenditures for?

2:19:28 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace You kind of describe in your testimony some projects, and I probably have an idea of what they are, but, just based on these abbreviations, could you just kind of describe what 2 is?

2:20:00 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace So you're still completing that at this point? You're expecting that to be done by March of this year?

2:20:16 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace And, at tab 22, there's no CWIP associated with that, so you began construction of that in 2019, is that correct?

2:20:26 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace And, when you projected the budget, you anticipated it being completed 2019 because there's no money actually in 2020?

2:20:41 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace What is current projected date for that project to be placed into service?

2:20:54 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace And where did that projected date come from?

2:21:04 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace So that date was projected separately from this rate case?

2:21:15 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace That's what I meant though. You all updated the completion date to the end of March of 2020, but you did separate from anything with respect to this rate case. Is that what you're saying?

2:21:31 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace And then could you just kinda describe the fuel oil system, there, Number 4, that you indicated was part of the projection that you did?

2:21:43 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace That's the Woodsdale fuel system that was discussed earlier, is that correct?

2:21:50 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace And, so far, you've spent about thirty-nine million on that and anticipate 2019 spending sixteen million. Is that project completed at this point?

2:22:05 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace With respect to the two larger projects there that were your responsibility, how did you determine the projected capital expenditures for those specific projects?

2:22:33 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace Here, at page 16 of your testimony, you said, "I provided the forecasted capital construction budget for plants contained in FR-16-7-B for Mr. Jacobi's use for the forecasted financial data," and I guess I was asking, on here, tab 22, which one of these you provided, and you indicated Number 2 and Number 4. My question was, how did you forecast the capital construction budget for those two projects in 2019?

2:23:15 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace So it was basically based on the specific expected costs of those two projects and then when you expected to complete those projects?

2:23:30 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace Now, down further on page 16, you indicated that you also provided forecasted capital budget data for FR-16-7-F -

2:23:46 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace - and FR-16-7-G, and those are at tab 26 and tab 27 of the Application. Do you have those two items?

2:24:01 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace So the 16-7-F item basically identifies those same projects that were identified on tab 22, is that correct?

2:24:13 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace And there's no difference between those numbers except you do have the projected completion dates on those there?

2:24:29 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace I guess I did miss one here. There's the solar generation facility, you provided that information, but the spend on that's not expected to begin until 2021, and that won't go in service before the end of the test period, is that correct?

2:24:46 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace Oh, so you didn't provide that one?

2:24:55 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace At tab 27 though, it provides kind of an aggregate which I think is reflected on tab 22 as the normal reoccurring construction budget.

2:25:07 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace Oh, I'm sorry, so the document we were referring to, the first one I referred to, which was FR-7-B, at the top, in line number 1, you've got the normal recurring construction, and then you had the seven items on there there, and then you had the total, and we just discussed FR-7-F, and it had the big projects listed again along with the expected completion date, and, now, the third one you indicated you sponsored, I think it's on page 17 of your testimony, it's 16-7-G, so Filing Requirement 16-7-G, and it just provides one line, sum of all projects not included in 16-7-F, and there's a hundred and eight million in 2019, ninety million in 2020, and seventy-four million in 2021, and did you provide information for smaller generation projects that would be reflected in that sum number there?

2:26:38 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace And I might be able to help you here. If you don't have this, I have copies for everybody, but it's Duke Kentucky's Response to Staff's DR-3-1.

2:26:53 PM Staff Atty Bellamy PSC
Note: Sacre, Candace I can approach, if you don't have it there.

2:27:35 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace I know you're not listed as the person who was responsible for responding to this, Staff DR-3, but it refers back to this Filing Requirement 16-7-G and the sum of the projects that don't meet the five percent threshold, and I was looking, if you see Attachment B, there, on the back of that one, it's the third page on that, and it kind of provides a breakdown of the sum from the Filing Requirement, and I was curious which of those items would have been items that you would have been responsible for providing the forecasted capital budgets?

2:29:20 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace So you don't know specifically which ones of these would have been something that you -

2:29:33 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace If you did provide information for the projected capital budget 16-7-G, the sum of the smaller projects, how did you forecast that budget for the smaller projects?

2:30:23 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace Mr. Jacobi mentioned a five-year capital expenditure budget that was prepared at the time that the 2019 annual budget was prepared as kind of the starting point for the capital expenditures.

2:30:46 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace So, at or about the time that the 2019 annual budget was prepared, you would have been responsible for projecting capital additions five years out into the future for Duke Kentucky generation?

2:31:20 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace That's kind of what I'm getting at. I was just trying to figure out - I know there's the process that at least Mr. Jacobi kind of indicated as part of the 2019 capital budget that there was this five-year - or as part of the 2019 annual budget, there was this five-year capital plan and that that served as kind of the basis or the starting point for the projections used in this case, and, if you're providing the projected capital expenditures with respect to generation for the forecasted test period and for the forecasted period in the base period, what I wanted to get, first off, how did you get those numbers? Did you just go take those numbers from the five-year budget and then just send them on to Mr. Jacobi, or did you reevaluate them prior to the rate case and then send those on to Mr. Jacobi? I'm just curious, how did - these forecasted capital expenditures for generation, how were they developed and how did they make their way to Mr. Jacobi?

2:33:10 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace Now, I understand just the general budgeting process you're going to look at these items, but as far as this case, do you recall a specific time when you actually sent information with respect to - not with respect to the large projects but with these smaller projects that are collectively in the capital budget, do you recall specifically sending those on, or how you actually developed those numbers for this case?

2:33:55 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace Do you recall reviewing the numbers with respect to generation that were used to forecast the capital budget?

2:34:08 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace When did that occur? When did they send you the updated numbers?

2:34:34 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace Looking at the two items, here, in Staff Request 3-1, you identified two that possibly might be related to generation, fossil steam plants and environmental fossil plants. I mean, that's showing fossil steam plants eight-point-seven-million in 2019 and then twenty-one million in 2020 and then ten million in 2021. Would you have any idea what would account for that doubling in 2020 and then going back down in 2021?

2:35:32 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace When is it scheduled for 2021?

2:35:39 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace When does outage season begin?

2:35:47 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace So you think that the increase there is probably with respect to capital spending associated with that?

2:36:34 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace Are you responsible for projecting the capital challenge amounts?

2:36:42 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace They're shown here on 3-1.

2:36:54 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace Are you responsible for projecting capital challenge amounts?

2:37:09 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace As part of the Filing Requirement 16-7-C, Mr. Jacobi had provided the 2019-2020 budget guidelines and assumptions which I think are represented to be guidelines for projecting budgets for Duke. Are you familiar with those guidelines and assumptions?

2:37:57 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace Bear with me. I'm just checking something real quick. Were you present in the hearing room when Mr. Spanos was testifying?

2:38:12 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace And he indicated there was a change in depreciation rates that was largely driven by approximately a hundred million dollars in capital spending at East Bend, and I was curious what capital spending - between the last rate case, which the order in the last rate case went out in Spring of 2018, so between then and middle of 2019, is there anything that would account for a hundred million more in capital spending at East End?

2:39:36 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace And that's what I was - I was basically trying to figure out what accounted for the three hundred million. I was looking at your direct testimony, and you mentioned some projects in there that potentially could account for it. The projects that you're referring to that you think accounted for capital additions at East Bend, would they all have been related to environmental, addressed environmental regulations?

2:40:37 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace So the dry ash or the dry bottom ash conversion, and is that project - I think your testimony indicated it went in service in June 2018, is that accurate?

2:40:56 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace And do you remember approximately how much that project was?

2:41:13 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace There's the water redirection pond closure and repurposing project, I think your testimony indicates it went in service approximately March 31 of 2019. Does that sound accurate to you?

2:41:30 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace And do you have any recollection of the spending or the cost of that project?

2:41:39 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace With respect to those projects, are any portions of those projects being flowed through the environmental surcharge mechanism?

2:41:48 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace So you think both those projects are?

2:41:58 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace Other than those two that I just mentioned, is there any significant capital project at East Bend that you can think of?

2:42:18 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace And was that project completed due to environmental regulations as well?

2:42:29 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace And do you know if that project is going through the environmental surcharge mechanism?

2:42:49 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace There's the East Bend east landfill and then there's the west landfill. Is the west landfill completed at this point?

2:43:22 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace When did the first cell go into service? Do you know?

2:43:28 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace I mean, was it in the last year? Since the last rate case? That was the main thing I was wondering.

2:43:48 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace On page five of your testimony, you're referring to the east and west landfill at East Bend. It says, "The landfills are permitted to receive generator waste from sources other than East Bend to ensure that Duke Kentucky has sufficient dry fly ash material available to make the Poz-O-Tec byproduct necessary to operate the station's FGD handling process. This permitting for multiple stations' fly ash is a benefit because the station, at times, does not produce sufficient quantities of ash to make the Poz-O-Tec."

2:44:30 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace So how often is it that East Bend doesn't produce enough fly ash to make the Poz-O-Tec?

2:44:49 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace Do you only procure additional ash to put in the landfill if you don't have enough ash generated at East Bend to make the Poz-O-Tec?

2:45:34 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace So East Bend will accept fly ash from other generating facilities if they need that to make the Poz-O-Tec, but East Bend won't - I'm basically trying to get at, are you basically under contract to accept fly ash from other generating facilities?

2:46:00 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace What portion is coming from other generating facilities?

2:46:21 PM Staff Atty Bellamy PSC - witness Moseley
Note: Sacre, Candace And do those generating facilities compensate Duke Kentucky for the use of the landfill, or - I'm curious how that works.

2:46:45 PM Staff Atty Bellamy PSC - witness Mosley
Note: Sacre, Candace So, if you didn't have it, you wouldn't be able to do the Poz-O-Tec, so that's why you all actually get it from the other facilities?

2:47:00 PM Staff Atty Bellamy PSC
Note: Sacre, Candace I don't have any other questions. Thank you.

2:47:02 PM Vice Chairman Cicero
Note: Sacre, Candace Commissioner Mathews?

2:47:03 PM Commissioner Mathews
Note: Sacre, Candace (Shook head negatively.)

2:47:04 PM Vice Chairman Cicero - witness Moseley
Note: Sacre, Candace Examination. Do you have minimum quantities of fly ash that you have to take?

2:47:17 PM Vice Chairman Cicero - witness Moseley
Note: Sacre, Candace So there's no floor, minimum?

2:47:24 PM Vice Chairman Cicero - witness Moseley
Note: Sacre, Candace And do you pay for it?

2:47:36 PM Vice Chairman Cicero - witness Moseley
Note: Sacre, Candace You pay for fly ash because the system that you've established can't operate efficiently based on the amount generated from the East Bend plant on a monthly basis?

2:47:58 PM Vice Chairman Cicero - witness Moseley
Note: Sacre, Candace When you initially applied to the Commission for approval of the project for the new landfill and the - is it Poz-O-Tec? Whatever the name of the material is that you're generating now that's hardened and put into the landfill, was that included as a cost to the project on an ongoing basis?

2:48:21 PM Vice Chairman Cicero
Note: Sacre, Candace In those post-hearing data requests, can you ask - include that as a question?

2:48:28 PM	Staff Atty Bellamy PSC Note: Sacre, Candace	If it was included in the amount?
2:48:30 PM	Vice Chairman Cicero Note: Sacre, Candace	Yes, if there's costs being incurred on an ongoing basis that wasn't anticipated and if there's minimum quantities involved in the taking of fly ash.
2:48:31 PM	POST-HEARING DATA REQUEST Note: Sacre, Candace Note: Sacre, Candace	VICE CHAIRMAN CICERO - WITNESS MOSLEY ONGOING COSTS OF FLY ASH PROCUREMENT - MINIMUM PURCHASE REQUIREMENT - PLANTS SUPPLYING FLY ASH - WHETHER ALL ONGOING COSTS INCLUDED IN INITIAL REQUEST FOR APPROVAL OF NEW EAST BEND LANDFILL
2:48:40 PM	Vice Chairman Cicero - witness Moseley Note: Sacre, Candace	What plant do you receive that from?
2:48:56 PM	Vice Chairman Cicero Note: Sacre, Candace	Okay, I'd also like to know where the fly ash is coming from. I'm curious if they're recognizing that revenue as well.
2:49:07 PM	Vice Chairman Cicero Note: Sacre, Candace	I don't have any other questions. Do you have any redirect?
2:49:11 PM	Atty Samford Duke Kentucky Note: Sacre, Candace	Just one quick question.
2:49:12 PM	Atty Samford Duke Kentucky - witness Moseley Note: Sacre, Candace	Redirect Examination. And you may not know the answer to this, Mr. Moseley, but, for the fly ash, do you know if the company is actually paying for the fly ash, or is it just paying for the transportation to take it from one plant to the other?
2:49:34 PM	Atty Samford Duke Kentucky - witness Moseley Note: Sacre, Candace	So it may not be that you're actually purchasing that; you're taking it, but you're paying the cost of transportation?
2:49:40 PM	Atty Samford Duke Kentucky Note: Sacre, Candace	We can clarify that, Your Honor.
2:49:41 PM	Vice Chairman Cicero Note: Sacre, Candace	I was just going to say, that's a good point. Just break it down, if there's both cost components or if it's all one, just so we understand what it is that's being paid for.
2:49:52 PM	Atty Samford Duke Kentucky Note: Sacre, Candace	Yes, sir. No further questions.
2:49:56 PM	Vice Chairman Cicero Note: Sacre, Candace	Any other? Mr. Howard?
2:49:59 PM	Atty Howard NKU Note: Sacre, Candace	Yes, please.
2:50:00 PM	Atty Howard NKU - witness Moseley Note: Sacre, Candace	Recross Examination. What was the total cost to convert Woodsdale from propane to diesel?
2:50:24 PM	Atty Howard NKU - witness Moseley Note: Sacre, Candace	Is there another witness here that would be able to have that just off the cuff or -
2:50:39 PM	Atty Howard NKU - witness Moseley Note: Sacre, Candace	And then, also, to follow up to the question or just to make sure I understood your response to Vice Chairman Cicero, your facilities are equipped to handle the intake of about a hundred thousand gallons a day of diesel?
2:50:55 PM	Atty Howard NKU Note: Sacre, Candace	That's it. Thank you, sir.

2:50:57 PM	Vice Chairman Cicero Note: Sacre, Candace	Any other questions, Mr. Bellamy?
2:50:59 PM	Staff Atty Bellamy PSC Note: Sacre, Candace	No, sir.
2:51:00 PM	Vice Chairman Cicero Note: Sacre, Candace	May this witness be excused?
2:51:02 PM	Atty Samford Duke Kentucky Note: Sacre, Candace	(Nodded affirmatively.)
2:51:02 PM	Vice Chairman Cicero Note: Sacre, Candace	You may step down. Thank you.
2:51:08 PM	Vice Chairman Cicero Note: Sacre, Candace	I think we can get another one in.
2:51:10 PM	Atty Honaker Duke Kentucky Note: Sacre, Candace	John Panniza.
2:51:33 PM	Vice Chairman Cicero Note: Sacre, Candace	Witness is sworn.
2:51:38 PM	Vice Chairman Cicero Note: Sacre, Candace	Ms. Honaker?
2:51:45 PM	Atty Honker Duke Kentucky - witness Pinazza Note: Sacre, Candace	Direct Examination. Can you please state your name for the record?
2:51:50 PM	Atty Honaker Duke Kentucky - witness Panizza Note: Sacre, Candace	And what is your position with the company and your business address?
2:52:00 PM	Atty Honaker Duke Kentucky - witness Pinazza Note: Sacre, Candace	And did you cause to file testimony and Responses to certain Data Requests in this proceeding?
2:52:07 PM	Atty Honaker Duke Kentucky - witness Panizza Note: Sacre, Candace	Do you have any corrections to make to any of those documents?
2:52:13 PM	Atty Honaker Duke Kentucky - witness Panizza Note: Sacre, Candace	Could you tell us where that is, please?
2:52:27 PM	Atty Honaker Duke Kentucky - witness Panizza Note: Sacre, Candace	Subject to that correction, if I were to ask you the same questions today, would your answers be the same?
2:52:32 PM	Atty Honaker Duke Kentucky - witness Panizza Note: Sacre, Candace	Is it your desire and intent to incorporate these documents into the record of this proceeding?
2:52:38 PM	Atty Honaker Duke Kentucky Note: Sacre, Candace	The witness is available for cross.
2:52:39 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Boehm?
2:52:40 PM	Atty Boehm Kroger Note: Sacre, Candace	No questions, Your Honor.
2:52:41 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. McNeil?
2:52:43 PM	Asst Atty Gen McNeil Note: Sacre, Candace	No questions.
2:52:44 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Howard?
2:52:46 PM	Atty Howard NKU Note: Sacre, Candace	No questions, Mr. Vice Chairman.
2:52:50 PM	Staff Atty Bellamy PSC Note: Sacre, Candace	I did have a couple of questions.
2:52:52 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Bellamy?

2:52:58 PM Staff Atty Bellamy PSC - witness Panizza
Note: Sacre, Candace Cross Examination. I just had a couple of questions about the amortization of the excess ADIT, and Duke, just to clarify, I think Duke and the Commission and intervenors have often used the term "protected excess ADIT" or referred to the excess ADIT that's subject to the normalization requirements under federal law. If I use the term protected excess ADIT, would you understand what I was talking about?

2:53:31 PM Staff Atty Bellamy PSC - witness Panizza
Note: Sacre, Candace And the federal normalization rules prohibit the amortization of protected excess ADIT at any rate that is greater than that permitted by the average rate assumption method, is that correct?

2:53:46 PM Staff Atty Bellamy PSC - witness Panizza
Note: Sacre, Candace And, pursuant to the average rate assumption method, the protected excess ADIT may only be amortized once the timing differences that generated the ADIT begin reversing, is that correct?

2:53:59 PM Staff Atty Bellamy PSC - witness Panizza
Note: Sacre, Candace And that's effectively done on a per-property or per-vintage account basis, is that correct?

2:54:06 PM Staff Atty Bellamy PSC - witness Panizza
Note: Sacre, Candace So you would have every vintage account or every piece of property, and the excess ADIT could not be amortized under ARAM until the timing difference with respect to each one of those - or the excess ADIT that was generated by that specific property could not be amortized until the timing difference with respect to that specific property begins reversing, correct?

2:54:32 PM Staff Atty Bellamy PSC - witness Panizza
Note: Sacre, Candace And because of that and because all of the properties and all the different plan accounts have different vintages and different lives or useful lives, using the ARAM, the amount that can be amortized in any given year is going to change based on the properties for which the timing difference are reversing in any given year, is that correct?

2:54:59 PM Staff Atty Bellamy PSC - witness Panizza
Note: Sacre, Candace And would you agree that because the tax - or you would agree that, generally, the tax depreciation is going to be higher than the book depreciation, correct?

2:55:16 PM Staff Atty Bellamy PSC - witness Panizza
Note: Sacre, Candace And that's what generates the timing difference because, for tax purposes, it's being depreciated more quickly and that's recognized as a deferred tax liability, correct?

2:55:42 PM Staff Atty Bellamy PSC - witness Panizza
Note: Sacre, Candace Sure, and I'm speaking generally, so I'm not holding you to any specific thing.

2:55:53 PM Staff Atty Bellamy PSC - witness Panizza
Note: Sacre, Candace And I understand because the tax depreciation is going to be faster than the book depreciation, in the beginning, when an excess ADIT is created, there's going to be more properties for which the timing differences are not reversing than several years after the excess is created, is that correct?

2:56:27 PM Staff Atty Bellamy PSC - witness Panizza
Note: Sacre, Candace Yeah, they'll start reversing in subsequent years, correct?

2:56:32 PM Staff Atty Bellamy PSC - witness Panizza
Note: Sacre, Candace And then, potentially, once items are fully depreciated on a book basis, then those would fall off, and there would be no more amortization, is that correct?

2:56:43 PM Staff Atty Bellamy PSC - witness Panizza
Note: Sacre, Candace But would you agree, in the first several years after a change in the tax rate, that the amount that can be amortized using the ARAM is likely to increase each year for several years at least?

2:57:19 PM Staff Atty Bellamy PSC - witness Panizza
Note: Sacre, Candace Do you know, with respect to Duke Kentucky, whether it's likely to start increasing in subsequent years?

2:57:31 PM Staff Atty Bellamy PSC - witness Panizza
Note: Sacre, Candace But you do agree that that's a possibility?

2:57:40 PM Staff Atty Bellamy PSC - witness Panizza
Note: Sacre, Candace And Duke estimated the amortization of protected excess ADIT allowed by ARAM for the forecasted test period by calculating the ARAM for 2018 after Duke completed its 2018 taxes, is that correct?

2:57:58 PM Staff Atty Bellamy PSC - witness Panizza
Note: Sacre, Candace So, with respect to the rate at which excess protected ADIT is being amortized in base rates for this rate case, it's based on the 2018 ARAM calculation, correct?

2:58:25 PM Staff Atty Bellamy PSC - witness Panizza
Note: Sacre, Candace And that rate is approximately \$36,000 a month or approximately, I think it was, like, \$450,000 a year or something like that. Does that sound about right to you? And you can look it up, if you want.

2:58:43 PM Staff Atty Bellamy PSC - witness Panizza
Note: Sacre, Candace And I'm not going to ask you about a specific number, so that's not important, yeah.

2:58:48 PM Staff Atty Bellamy PSC - witness Panizza
Note: Sacre, Candace Let's just say that it's \$500,000, just by way of example, in 2018, and let's say, for the purposes of just a really easy hypothetical, that it's \$500,000 in 2018, and, in 2020, the ARAM would jump up to a million dollars, if the five-hundred-thousand-dollar amortization rate is in rates established by the Commission, but, in years in which the rates are in effect, the amortization rate could have been a million dollars using ARAM, except that \$500,000 of that amount is not being collected, what is Duke's position with respect to what would happen to that \$500,000 that's not being collected? Would that go and remain in the protected excess ADIT account, or would that amount be lost?

3:00:02 PM Staff Atty Bellamy PSC - witness Panizza
Note: Sacre, Candace So you don't know the answer to that?

3:00:10 PM Staff Atty Bellamy PSC - witness Panizza
Note: Sacre, Candace And you all had amounts for unprotected excess ADIT also, correct?

3:00:17 PM Staff Atty Bellamy PSC - witness Panizza
Note: Sacre, Candace And, again, the amount that it's amortizing is not important, but, for another hypothetical, assuming that the protected excess ADIT is amortizing at \$500,000 a year and, the unprotected, we establish rates that would set the unprotected - or the amortization of the unprotected excess ADIT at two-point-five million, would it result in a normalization violation if the Commission were to say, you know, "Excess ADIT is going to be amortized at \$3,000,000 a year, but because you indicated it's difficult to calculate ARAM in future years because there's so many pieces of property involved, we want you, in the books, to the extent that \$300,000,000 could be attributed to the excess protected ADIT, that it should be attributed to that each year until the next rate case?"

3:01:33 PM Staff Atty Bellamy PSC - witness Panizza
Note: Sacre, Candace Yeah, so if you set the amortization of both excess protected and unprotected at \$3,000,000 a year, and I know the estimate you're using is that using ARAM approximately five hundred thousand could be amortized using the - approximately five hundred thousand of the protected excess ADIT could be amortized, would it be a normalization violation for the Commission to order that the three-million-dollar total amortization of both protected and unprotected that, each year, once you get your taxes done and you have the actual ARAM calculation, that you attribute the amortization of that \$3,000,000 to protected to the extent you possibly can using ARAM such that when you come in for the next rate case ARAM each year will have been amortized at the - or protected will have been amortized at the maximum possible rate up to \$3,000,000, but the remainder would have been attributed to unprotected?

3:03:03 PM Staff Atty Bellamy PSC - witness Panizza
Note: Sacre, Candace So you could adjust it in subsequent years and account for the potential change?

3:03:19 PM Staff Atty Bellamy PSC - witness Panizza
Note: Sacre, Candace Could you look at your Response, if you have it, to Staff's Third Request, Item 40? And I think you were asked about why Duke Kentucky didn't take advantage of a tax credit for business inventory, and I was just following up to that, is there a reason why that was not done?

3:04:30 PM Staff Atty Bellamy PSC - witness Panizza
Note: Sacre, Candace One other question about the protected excess ADIT. You provided the spreadsheet, and I know the spreadsheet itself was confidential in response to Staff Request 2-172-F, and I'm not asking about any specific item in the spreadsheet, but I don't know if we would need to go into confidential session for this. I guess the question is just basically why there would be negative items in there in addition to - there's deferred tax liabilities represented there, and then there's deferred tax assets represented in there, and I'm curious what created the deferred tax assets?

3:05:33 PM Vice Chairman Cicero
Note: Sacre, Candace Do we need to go into confidential?

3:05:34 PM Atty Samford Duke Kentucky
Note: Sacre, Candace We probably ought to, out of an abundance of caution, Your Honor.

3:05:44 PM Private Mode Activated

3:05:44 PM Private Recording Activated

3:06:29 PM Normal Mode Activated

3:06:29 PM Public Recording Activated

3:06:35 PM Staff Atty Bellamy PSC - witness Panizza
Note: Sacre, Candace I didn't want to ask about specific items. I'm just curious. There are positive items in there representing deferred tax liabilities, and then there's negative items that are actually decreasing the amortization that are deferred tax assets, and I'm just curious, what types of items would be assets in there?

3:06:59 PM Staff Atty Bellamy PSC - witness Panizza
Note: Sacre, Candace Yes, it was the calculation of the 2018 amount that you all had done, showing how it was done.

3:07:08 PM Atty Honaker Duke Kentucky
Note: Sacre, Candace It goes to Response F to that Staff Data Request 2-172. It was the attachment that answered Part F.

3:07:56 PM	Vice Chairman Cicero Note: Sacre, Candace	I think that's why we extended the period, to find out exactly what the ADIT was.
3:08:03 PM	Staff Atty Bellamy PSC Note: Sacre, Candace	I'll just let it go for now. That's fine. I don't have any more questions.
3:08:07 PM	Vice Chairman Cicero Note: Sacre, Candace	Commissioner Mathews?
3:08:10 PM	Commissioner Mathews Note: Sacre, Candace	Surprisingly, no.
3:08:16 PM	Vice Chairman Cicero Note: Sacre, Candace	I don't have any questions either. Is there any redirect?
3:08:26 PM	Atty Honaker Duke Kentucky Note: Sacre, Candace	No, Your Honor.
3:08:27 PM	Vice Chairman Cicero Note: Sacre, Candace	Anybody else have any questions? May this witness be excused?
3:08:32 PM	Vice Chairman Cicero Note: Sacre, Candace	Thank you. Okay, it's 3:10. We'll go to 3:25 and then start again. We're in recess.
3:08:49 PM	Session Paused	
3:08:57 PM	Session Resumed	
3:09:09 PM	Session Paused	
3:26:49 PM	Session Resumed	
3:26:51 PM	Vice Chairman Cicero Note: Sacre, Candace	We're back in session, and I guess we're ready for the next witness, Mr, Samford.
3:26:59 PM	Atty Samford Duke Kentucky Note: Sacre, Candace	Yes, sir, Your Honor, I'd like to call Ms. Dani Weatherston.
3:27:22 PM	Vice Chairman Cicero Note: Sacre, Candace	Witness is sworn.
3:27:32 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Samford, you may ask.
3:27:35 PM	Atty Samford Duke Kentucky - witness Weatherston Note: Sacre, Candace	Direct Examination. Ms. Weatherston, do you go by Dani or Danielle?
3:27:38 PM	Atty Samford Duke Kentucky - witness Weatherston Note: Sacre, Candace	Okay, could you please tell us your name, business address, and title for the record, please?
3:27:54 PM	Atty Samford Duke Kentucky - witness Weatherston Note: Sacre, Candace	And did you cause certain testimony and Responses to Data Requests to be filed in the record of this proceeding?
3:27:59 PM	Atty Samford Duke Kentucky - witness Weatherston Note: Sacre, Candace	Do you have any corrections, changes, additions, or edits to that testimony or responses?
3:28:05 PM	Atty Samford Duke Kentucky - witness Weatherston Note: Sacre, Candace	If I were to ask you the same questions, would your answers be the same?
3:28:10 PM	Atty Samford Duke Kentucky - witness Weatherston Note: Sacre, Candace	Is it your desire and intent to incorporate that testimony and answers to Data Request Responses in the record of this hearing?
3:28:17 PM	Atty Samford Duke Kentucky - witness Weatherston Note: Sacre, Candace	Your Honor, tender the witness for cross examination.
3:28:21 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Boehm?

3:28:22 PM	Atty Boehm Kroger Note: Sacre, Candace	No questions, Your Honor.
3:28:23 PM	Asst Atty Gen McNeil Note: Sacre, Candace	I don't have any questions, Your Honor.
3:28:24 PM	Atty Howard NKU Note: Sacre, Candace	No questions.
3:28:26 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Howard, you're good?
3:28:27 PM	Atty Howard NKU Note: Sacre, Candace	I'm good. Thank you very much for asking.
3:28:29 PM	Staff Atty Bellamy PSC Note: Sacre, Candace	Staff did not have questions.
3:28:31 PM	Vice Chairman Cicero Note: Sacre, Candace	You have no questions?
3:28:32 PM	Staff Atty Bellamy PSC Note: Sacre, Candace	No questions.
3:28:33 PM	Vice Chairman Cicero Note: Sacre, Candace	Wow. Commissioner Mathews?
3:28:36 PM	Commissioner Mathews Note: Sacre, Candace	I don't have any questions.
3:28:38 PM	Vice Chairman Cicero Note: Sacre, Candace	Apparently, you're doing a great job with capitalized accounting.
3:28:53 PM	Vice Chairman Cicero Note: Sacre, Candace	I'm not going to ask any questions. I'm good, unless you have some redirect you'd like to bring out.
3:28:59 PM	Atty Samford Duke Kentucky Note: Sacre, Candace	I don't think so. We're good.
3:29:01 PM	Vice Chairman Cicero Note: Sacre, Candace	I thought you might be. Thank you.
3:29:07 PM	Atty Samford Duke Kentucky Note: Sacre, Candace	Your Honor, we'd like to call Mr. Chris Jacobi.
3:29:16 PM	Camera Lock Comm Wide Activated	
3:29:19 PM	Vice Chairman Cicero Note: Sacre, Candace	Witness is sworn.
3:29:24 PM	Camera Lock Deactivated	
3:29:26 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Samford?
3:29:27 PM	Atty Samford Duke Kentucky Note: Sacre, Candace	Thank you, Your Honor.
3:29:28 PM	Atty Samford Duke Kentucky - witness Jacobi Note: Sacre, Candace	Direct Examination. Mr. Jacobi, would you please state your name, title, and business address for the record, please?
3:29:40 PM	Atty Samford Duke Kentucky - witness Jacobi Note: Sacre, Candace	And did you cause certain testimony and Responses to Data Requests to be filed in the record in this case?
3:29:46 PM	Atty Samford Duke Kentucky - witness Jacobi Note: Sacre, Candace	Do you have any corrections or edits or changes to this testimony or Data Requests?
3:30:19 PM	Atty Samford Duke Kentucky - witness Jacobi Note: Sacre, Candace	So, with those two updates, if I were to ask you the same questions, would your answers be the same?
3:30:25 PM	Atty Samford Duke Kentucky - witness Jacobi Note: Sacre, Candace	Is it your desire and intent to take your Data Request Responses and testimony and incorporate those into the record of this hearing?

3:30:32 PM	Atty Samford Duke Kentucky Note: Sacre, Candace	Your Honor, tender the witness for cross examination.
3:30:34 PM	Vice Chairman Cicero Note: Sacre, Candace	Before I let you speak, Mr. Boehm -
3:30:37 PM	Vice Chairman Cicero - witness Jacobi Note: Sacre, Candace	Examination. Did you say - what was the rating, the S&P? You corrected your -
3:30:48 PM	Vice Chairman Cicero - witness Jacobi Note: Sacre, Candace	So they improved the rating?
3:31:09 PM	Vice Chairman Cicero - witness Jacobi Note: Sacre, Candace	Okay, because I thought, of the two ratings, that one had gone negative, from stable to negative, and it looked like the risk had become worse, and that's why they changed it, but you're saying it's stable?
3:31:51 PM	Vice Chairman Cicero - witness Jacobi Note: Sacre, Candace	Duke Kentucky does not issue its own debt, or is it part of the corporate?
3:32:14 PM	Vice Chairman Cicero - witness Jacobi Note: Sacre, Candace	So, if they wanted to go out for a debt offering, Duke Kentucky would go out and ask for a placement of whatever amount it is, and it would not be through the corporate structure; it would be through the public?
3:32:36 PM	Vice Chairman Cicero Note: Sacre, Candace	Thank you. Sorry. Mr. Boehm?
3:32:39 PM	Atty Boehm Kroger Note: Sacre, Candace	Thank you, Your Honor.
3:32:42 PM	Atty Boehm Kroger - witness Jacobi Note: Sacre, Candace	Cross Examination, Good afternoon, Mr. Jacobi. You were sponsoring witness for Kroger DR-1-3, is that correct? I have it here, if -
3:33:17 PM	Atty Boehm Kroger - witness Jacobi Note: Sacre, Candace	You don't need a copy of this, Mr. Jacobi?
3:33:46 PM	Atty Boehm Kroger - witness Jacobi Note: Sacre, Candace	My questions are about Item E. Just by way of background, I discussed this morning with Ms. Spiller briefly about the Amazon facility that's being built near the airport, and I think that she indicated that Phase 1 of that facility would be completed in the summer of 2020, this summer?
3:34:14 PM	Atty Boehm Kroger - witness Jacobi Note: Sacre, Candace	Okay, and then there's another, the second phase. When will that be completed? Do you know?
3:34:29 PM	Atty Boehm Kroger - witness Jacobi Note: Sacre, Candace	So, on page 2, it states, and I guess this was Mr. Kern that was the sponsoring witness, but he states, "The facility is expected to become operational in stages, with the first one in July of 2020 and the second in January 2021; full commercial operation is expected in July of 2021." So Item E in that Data Request asks about revenues and expenses associated with the Amazon air hub facility which are included or not included in the future test period of this proceeding, is that correct?
3:35:13 PM	Atty Boehm Kroger - witness Jacobi Note: Sacre, Candace	So I just want to drill down and try to figure exactly what's in and what's out. What expenses are included in the test year?
3:35:38 PM	Atty Boehm Kroger - witness Jacobi Note: Sacre, Candace	So the only expense included in the test year associated with the Amazon facility is the depreciation expense?

3:36:12 PM	Atty Boehm Kroger - witness Jacobi Note: Sacre, Candace	The expenses that are included in the test year, are they associated only with Phase 1?
3:36:44 PM	Atty Boehm Kroger - witness Jacobi Note: Sacre, Candace	You refer to Schedule M, that revenue from the Amazon facility was included in Schedule M. Is that separately noted in Schedule M what portion is associated with this facility?
3:37:17 PM	Atty Boehm Kroger - witness Jacobi Note: Sacre, Candace	Let's go to the revenue. What revenue associated with that facility is included in the test year?
3:37:46 PM	Atty Boehm Kroger Note: Sacre, Candace	Can we do a post-hearing data request in which the company can kind of explain which costs are in and which costs are out of the test year?
3:37:58 PM	Vice Chairman Cicero Note: Sacre, Candace	Yes, and what will be required is for you to specifically write your question. We'll set a date when all the post-hearing data requests are to be submitted for answers, and then we'll give Duke a chance to respond to it at some point in time, so you prepare your question and submit it, it can be submitted as a post-hearing data request.
3:37:59 PM	POST-HEARING DATA REQUEST Note: Sacre, Candace Note: Sacre, Candace	ATTY BOEHM KROGER - WITNESS JACOBI SPECIFIC COSTS ASSOCIATED WITH AMAZON AIR HUB FACILITY INCLUDED IN TEST YEAR PERIOD
3:38:18 PM	Atty Boehm Kroger Note: Sacre, Candace	Thank you, Your Honor. Those are all the questions I have.
3:38:20 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. McNeil?
3:38:22 PM	Asst Atty Gen McNeil Note: Sacre, Candace	Yes, thank you.
3:38:26 PM	Asst Atty Gen McNeil - witness Jacobi Note: Sacre, Candace	Cross Examination. Good afternoon, Mr. Jacobi. I want to look first at your rebuttal testimony, pages 2 through 4. I'm not going to refer to anything specific, right off the bat, but I just wanted to give you that. At those pages, you disagree with Mr. Kollen's adjustment towards the payroll expense and related taxes, is that correct?
3:38:58 PM	Asst Atty Gen McNeil - witness Jacobi Note: Sacre, Candace	And, in forecasting the payroll budget, does the company distinguish between full-time equivalent employees and contractors?
3:39:50 PM	Asst Atty Gen McNeil - witness Jacobi Note: Sacre, Candace	But you don't budget a full-time equivalent employee headcount, do you?
3:39:58 PM	Asst Atty Gen McNeil - witness Jacobi Note: Sacre, Candace	You don't rely on actual payroll costs, is that right?
3:40:22 PM	Asst Atty Gen McNeil - witness Jacobi Note: Sacre, Candace	So, can you explain, what are contingent employees?
3:40:52 PM	Asst Atty Gen McNeil - witness Jacobi Note: Sacre, Candace	Do you have Response to the AG's Second Data Request, Item 39, available?
3:41:21 PM	Asst Atty Gen McNeil - witness Jacobi Note: Sacre, Candace	So there's subparts A through D. Is it correct that, in the answers to Subparts A and B, that the company admits that it had inadvertently excluded certain accounts for actual data sets in A and, in B, 2019 budget data sets had also inadvertently excluded certain accounts?

3:41:57 PM Asst Atty Gen McNeil - witness Jacobi
Note: Sacre, Candace With that being known, was that sort of revised in your rebuttal testimony, those calculations?

3:42:16 PM Asst Atty Gen McNeil - witness Jacobi
Note: Sacre, Candace The amount budgeted for payroll, the final amount, did that change based on those discoveries?

3:42:34 PM Asst Atty Gen McNeil - witness Jacobi
Note: Sacre, Candace Okay, I think I see what you're saying, but I'll ask, so, if you don't budget FT head count and you don't always maybe rely on actual payroll costs and these certain accounts have been excluded, I mean, how was Mr. Kollen supposed to come up with the right employee payroll expense in his calculations?

3:43:32 PM Asst Atty Gen McNeil - witness Jacobi
Note: Sacre, Candace Okay, and I guess I would -

3:43:42 PM Vice Chairman Cicero
Note: Sacre, Candace So I guess your question is, why weren't they all adjusted? That would be my question.

3:43:49 PM Asst Atty Gen McNeil
Note: Sacre, Candace Sort of, yes, and - yeah.

3:43:54 PM Vice Chairman Cicero - witness Jacobi
Note: Sacre, Candace Examination. I mean, regardless of how many variables have to be changed, if you're going to use not known and measurable to start with and then say that because you've got two variables that are not known and measurable but they kinda offset each other because you'd have to make an adjustment, I don't understand why there wouldn't be an adjustment going back and looking at what the actual payroll was rather than offsetting with outside contractors?

3:44:54 PM Vice Chairman Cicero - witness Jacobi
Note: Sacre, Candace And I understand your statement, except that you're forecasting a payroll amount that includes payroll taxes, associated benefits, and all the other associated costs that go along with a workforce that's employed by Duke versus a totally different cost for outside contractors that, yes, they will have a higher cost because they're carrying those overheads themselves, but that doesn't necessarily mean they offset.

3:45:52 PM Vice Chairman Cicero - witness Jacobi
Note: Sacre, Candace I understand your statement, but I don't understand, if going through a forecasting process, why it's not forecast with the variables to be projected as Duke would expect the variables to be rather than saying, "I know I have this cost that's lower than budget, this cost that may be higher than budget." You're using a blend that I'm not sure is applicable.

3:46:48 PM Vice Chairman Cicero
Note: Sacre, Candace I'm going to let you continue with your cross.

3:46:50 PM Asst Atty Gen McNeil
Note: Sacre, Candace Thank you.

3:46:57 PM Asst Atty Gen McNeil - witness Jacobi
Note: Sacre, Candace Cross Examination (cont'd). I know you don't agree with Mr. Kollen's recommendation, but would you, at least, agree that, in formulating that recommendation, he used the most recent actual monthly payroll expenses escalated it by three percent annually for the test year, and then assumed no change in average FTEs consistent with the company policy not to do that? Does that sound correct to you?

3:47:33 PM Asst Atty Gen McNeil - witness Jacobi
Note: Sacre, Candace I'll move on to something sort of similar. You also disagree with Mr. Kollen's adjustment to Duke Kentucky long-term debt rate?

3:47:45 PM Asst Atty Gen McNeil - witness Jacobi
Note: Sacre, Candace And you state the fully forecasted test year is Duke Kentucky's right to file under Kentucky law, which is correct. You also go on to say Duke Kentucky cannot change that forecast, is that right?

3:48:03 PM Asst Atty Gen McNeil - witness Jacobi
Note: Sacre, Candace But wouldn't you agree that the Commission could change that if it agreed with Mr. Kollen's recommendation?

3:48:21 PM Asst Atty Gen McNeil - witness Jacobi
Note: Sacre, Candace I mean, on certain other things, there have been other errors in the filing the company has been able to correct, is that correct?

3:48:51 PM Asst Atty Gen McNeil - witness Jacobi
Note: Sacre, Candace I didn't mean to characterize that change as an error. Yeah, thank you for that, so I'll just ask then, wouldn't you agree that it's reasonable for the Commission to test the reasonableness of rate base expense against historical data?

3:49:44 PM Asst Atty Gen McNeil - witness Jacobi
Note: Sacre, Candace Certainly, that's something the Commission could consider?

3:49:51 PM Asst Atty Gen McNeil
Note: Sacre, Candace No further questions.

3:49:53 PM Vice Chairman Cicero
Note: Sacre, Candace Mr. Howard?

3:49:54 PM Atty Howard NKU
Note: Sacre, Candace Yes, Mr. Vice Chairman.

3:49:57 PM Atty Howard NKU - witness Jacobi
Note: Sacre, Candace Cross Examination. Mr. Morin adjusted his figures based on projections regarding equity, did he not?

3:50:05 PM Atty Howard NKU - witness Jacobi
Note: Sacre, Candace No. He adjusted his numbers based on projections?

3:50:17 PM Atty Howard NKU - witness Jacobi
Note: Sacre, Candace And, here, we now have projections relative to the debt market as well, correct?

3:50:30 PM Atty Howard NKU - witness Jacobi
Note: Sacre, Candace But we have projections as to where that number will be going, correct?

3:50:39 PM Atty Howard NKU - witness Jacobi
Note: Sacre, Candace So, if we're going to adjust an equity component based on projections, should we not also adjust the debt component based on projections?

3:51:08 PM Atty Howard NKU - witness Jacobi
Note: Sacre, Candace I was going to your statement. Did you state a moment ago that you should not tinker with, and that's my word, tinker with the long-term debt based on projections?

3:51:50 PM Atty Howard NKU - witness Jacobi
Note: Sacre, Candace And thank you for the clarification because it's not just projection. We actually have lowered debt costs going forward?

3:52:03 PM Atty Howard NKU - witness Jacobi
Note: Sacre, Candace But we know, at this point in time, based on the numbers that are going to come out in September, debt costs are going to be lower?

3:52:38 PM Atty Howard NKU - witness Jacobi
Note: Sacre, Candace If I'm an investor, I'm looking at your return on equity, correct?

3:52:42 PM Atty Howard NKU - witness Jacobi
Note: Sacre, Candace And I'm also looking at your debt service going forward, correct?

3:52:48 PM Atty Howard NKU - witness Jacobi
Note: Sacre, Candace And, if I believe that your debt is going to be going down, wouldn't that be an incentive for me, all else being equal, if your ROE is going up, to be even more likely to invest in Duke? All else being equal, if your debt's going down and your ROE is stable if not improving, for an investor to look at you as being more attractive?

3:53:28 PM Atty Howard NKU - witness Jacobi
Note: Sacre, Candace Okay, well, we'll agree to disagree. It's your position that, if debt is going down, as Mr. Kollen maintains, that you should not adjust for that?

3:53:58 PM Atty Howard NKU - witness Jacobi
Note: Sacre, Candace So your answer is no?

3:54:01 PM Atty Howard NKU
Note: Sacre, Candace Thank you. That's all I have.

3:54:05 PM Vice Chairman Cicero
Note: Sacre, Candace Mr. Nguyen or Mr. Bellamy?

3:54:07 PM Staff Atty Bellamy PSC
Note: Sacre, Candace Yes, I did have some questions.

3:54:09 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace Cross Examination. Could you take a look at page 20 of your direct testimony?

3:54:18 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace And I can just read it. Basically, there, at line 3 down to line 13, you said, "The projected gas and electric capital budget was prepared by the responsibility centers for a five-year period at the time of the 2019 annual budget preparation per Duke Energy's capital budgetting process which I discussed earlier. The electric capital budget data was obtained from Duke Energy's distribution, transmission, and fossill/hydro generation organizatons, respectively. These numbers were revised to reflect the latest cost estimates of timing capital expenditures for various projects designed to maintain and enhance reliability and service to customers, including several construction projects at the East Bend and Woodsdale stations for various compliance initiatives, as well as the company's distribution system."

3:55:11 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace Am I correct, in that paragraph, are you explaining kind of in general terms how Duke Kentucky projected additions to plant and service for the forecasted test period?

3:56:20 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace And that's what I'm - that's how you did it for the forecasted test period but also for the forecasted portions of the base period and the period in between the base period and the forecasted test year, correct?

3:56:39 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace Okay, and I was kinda going to just go through a little bit of how this process actually worked, and you did explain a little bit. I appreciate that. But, basically, you started with the capital expenditures projected by the responsibiltiy centers at the time of the 2019 annual budget, is that correct?

3:57:02 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace And those are projected at the time of the 2019 annual budget for a five-year period, correct?

3:57:10 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace So that's your starting point, and then you indicated that you then - or Duke then revised the numbers to reflect the latest cost estimates and timing of capital expenditures for various projects?

3:57:26 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace Okay, and I'll get to the revisions. I just first want to talk about the initial capital budgeting process before I get to the revisions. But those revisions were made specifically for this case, is that correct?

3:58:16 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace February of 2019?

3:58:34 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace Okay, so you mentioned the guidelines as part of the Application. It's actually at tab 23. I think it was in response to Filing Requirement 16-7-C, and I think you sponsored it. It's the 2019-2020 Budget Guidelines and Assumptions. Is that what you were referring to when you just referred to the guidelines for preparing the 2019 budget?

3:59:09 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace Do you have a copy of those in front of you?

3:59:15 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace I've got a copy here for you.

3:59:24 PM Vice Chairman Cicero
Note: Sacre, Candace So, while you're handing these out, you previously handed out, are you going to make this Staff Exhibit 2, or is this Staff Exhibit -

3:59:34 PM Staff Atty Bellamy PSC
Note: Sacre, Candace Well, I actually talked to counsel for Duke and because - I really was just handing it to him so they had it in front of them, and since it's already part of the record, I didn't think it needed to be an exhibit.

3:59:41 PM Vice Chairman Cicero
Note: Sacre, Candace So you don't want to introduce it? This one as well?

3:59:44 PM Staff Atty Bellamy PSC
Note: Sacre, Candace Yes, I just wanted to make sure you had a copy to refer to.

4:00:23 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace If you look at page 11 of the guidelines, so it states, under Section 4.5, there's facility maintenance addition changes, and before that first list of names there, there's a sentence that says, "Real estate will budget for facility infrastructure replacements, i.e., roof, air conditioning, paving, carpet," and it says, "For Real Estate, contact," then it has the contacts, and below those contacts, it says, "Additions or changes to the facility or grounds will be budgeted by real estate, and multi-year capital planning effort will address the needs of the business units as well as those of the corporate areas so that the needs are addressed during the budgeting process. They should be discussed with the VPRM contacts below. They are also available for additional pricing estimates and budget additions." What is real estate?

4:02:05 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace So, when it's referring there to real estate, is that talking about - or they're talking about the multi-year capital planning effort to address the needs of the business units. Is that the five-year capital budget that you were talking about?

4:02:20 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace And so does the real estate group do the capital expenditure projections for all Duke additions, including transmission, distribution, and generation?

4:02:40 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace So you refer to the different business units, so, within Duke Kentucky, would transmission and distribution have their own financing division, and they're the ones - I'm just trying to figure out, who does the actual projections of the plant for the five-year capital budget?

4:03:39 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace So, when Mr. Moseley referred to getting numbers from finance, is that the Midwest Generation Financing team that he's getting those from?

4:03:52 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace And would they initially come up with the budget, and then he would review it to determine whether or not it would fit his need, or is he coming up with the budget, and then they're reviewing it to determine whether or not they have the capital available to meet it?

4:04:55 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace So, initially, the initial budget numbers are provided by the forecasting group?

4:05:15 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace Is the forecasting group for Duke Kentucky specifically, or is it a forecasting group for Duke corporate that does the forecasting of the capital budgets for each different business group?

4:05:42 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace And, with respect to the capital budgets, how do you determine what amount to forecast for capital expenditures in a given future year?

4:05:57 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace And I should clarify. I meant, at the initial step where the forecasting group is doing that before it goes to the Midwest Generation.

4:06:53 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace And you're kinda indicating a back and forth between the forecasting group, the Kentucky generation or the Midwest Generation, and then their financing. After that back and forth is done and you all have settled on a number, who has the ultimate approval over what the budget number will be for capital expenditures for Duke Kentucky transmission?

4:07:50 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace And, just to be clear, when you're doing the five-year capital budget, the amounts that you're including in each year 2019 and 2020, those amounts are based on the dates in which you expect to spend the money on the capital additions, not on the dates in which you expect the plants to go into service, is that correct?

4:08:36 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace But as far as - so you're saying the in-service dates inform what you're actually budgeting for a particular year as far as capital expenditures?

4:09:04 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace I understand that, but I just mean when you're actually doing the five-year capital budget, it's based on the year in which it's going to be spent, not the year that the plant for which you're spending the money is going to be put into service?

4:09:22 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace Could you look at page 4 of the budget guidelines analysis? I think that's what that's saying, right there, at 1.4 on page 4, "Budget should be prepared on an accrual basis?"

4:09:46 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace Then could you look at the bottom of page 3, budget requirements, year one and year two. It's actually page 3, at the bottom, it's Section 1.3. So it says, "Budget requirements, year and year two, "O&M and capital budgets for two years will be completed during the budget cycle 2019-2020. Targets have been issued for each year." What does "targets have been issued for each year" mean?

4:10:44 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace And who sets the initial targets?

4:10:55 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace What are the targets based on?

4:11:18 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace When it says "targets have been set," to me that means sort of that you, you know, "We're setting something that we want you all to reach." I'm curious about the use of the word "targets."

4:11:53 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace Do the projected capital budgets in the five-year budget represent - and I know these might change as things change over the years, but at the time you actually develop the five-year budget, do the amounts in the five-year capital budget represent all the spending in those years that Duke Electric expects to be capitalized?

4:12:25 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace So that would include things like any maintenance items that you expect to be capitalized?

4:12:47 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace You got the five-year budget, and, in your testimony, you said the five-year budget numbers were revised to reflect the latest cost estimates and timing of capital expenditures of various projects. Did Duke Kentucky make adjustments to all capital projects or all projected capital spending or only the specified identifiable projects, like large projects, basically?

4:13:30 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace Who actually did the adjusting with respect to the estimates and the dates of spending?

4:13:55 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace What do you mean - in your testimony, you indicated that you made revisions to reflect the timing of capital expenditures for various projects. I was curious what you meant by that.

4:14:24 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace But you're talking about changing the timing of the expenditure, not the timing based on when the plant's going to go into service, correct?

4:14:42 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace I understand, like, if you're going to spend it later, then that will probably push back your plant in-service date. In your testimony, here, on page 20, you said that you had the five-year budget numbers, and then you made revisions to reflect changes in cost estimates and timing of capital expenditures. I'm just meaning, when you're referring to there, you're referring to changing the time of capital expenditures, not changing the capital budget to reflect when plant's being put in service, correct?

4:15:33 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace With respect to the five-year capital budget that was used for Duke Kentucky to prepare the forecasted plant in service for this case, are you familiar with any specific revisions to the cost estimates, here, for any specific projects that you know are changed?

4:16:01 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace I mean, were they material? Are we talking about a million dollars or fifty million dollars? I'm just curious, what the -

4:16:19 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace But you don't know those. Could you take a look at - it's another part of the - something that was filed with the Application I think you sponsored again. It's Section 16-7-B. It's at tab 22 of the Application, Filing Requirement 16-7-B. It says Capital Expenditure Budgets, Years 2019 to 2020.

4:17:32 PM Staff Atty Bellamy PSC
Note: Sacre, Candace I have a copy of it. Do you mind if I approach?

4:17:35 PM Vice Chairman Cicero
Note: Sacre, Candace You may.

4:17:38 PM Atty Howard NKU
Note: Sacre, Candace And, excuse me, please, where was that in the Application, if I may ask?

4:17:41 PM Staff Atty Bellamy PSC
Note: Sacre, Candace It's at tab 22.

4:17:42 PM Atty Howard NKU
Note: Sacre, Candace Tab 22. Thank you very much.

4:18:02 PM Vice Chairman Cicero
Note: Sacre, Candace Again, this is for information purposes only?

4:18:04 PM Staff Atty Bellamy PSC
Note: Sacre, Candace Yes.

4:18:21 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace You talked about this, I think, in your testimony, and it indicates, on the front, there, that you sponsored it. This is the capital expenditure budget for 2019 through 2020, is that accurate?

4:18:39 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace It shows the CWIP as of 12-31-2018 and the projected capital expenditures for Duke Electric for 2019, 2020, and 2021 except you indicated that it excludes projects recovered through the company's ESM rider?

4:19:01 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace Are the projected expenditures shown on this document for 2019, 2020, and 2021 the projected expenditures made as part of the five-year budget process for the 2019 budget?

4:19:35 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace In your testimony, you refer to making revisions for changes in cost estimates and time of spending. This document would represent the five-year budget for those three years, but with those revisions for cost estimate and change in spending, correct?

4:20:21 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace The document shows seven specific projects, capital expenditures and CWIP for seven specific projects, and then it shows amounts for normal recurring construction. Based on the projected capital expenditure in 2019, 2020, and 2021 for normal recurring construction, would you expect the CWIP at the end of 2019, 2020, and 2021 to be approximately equal to the CWIP shown on this document for December 31, 2018?

4:21:05 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace Would you have a better way of estimating it than using the number as of 12-31-2018?

4:21:31 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace And, the numbers on this document, they actually include AFUDC, correct?

4:21:40 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace So they anticipate that AFUDC would be included in rate base?

4:21:56 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace After looking at this, does it refresh your memory as to any specific project you may have revised a cost estimate?

4:22:47 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace Do you know whether or not the CWIP as of 12-31-2018 for the nonrecurring construction was included as part of plant in service for the rate case?

4:23:04 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace You don't know. Could you refer to Schedule B-2? So there, again, on page 2, at line 9, there's the 13-month average of the jurisdictional plant in service. It's two billion seventy-two million, and that's before the adjustments that are shown in the next column, correct?

4:24:27 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace So, after those adjustments, that plant in-service number was then used to calculate the net plant in service for the purpose of establishing rates in this case, correct?

4:24:45 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace And then, again, to determine the 13-month average, you would have needed to know the projected plant in service as of the beginning of the forecasted test period?

4:24:59 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace So you have the projected plant in service at the beginning, and then you have for each month, and then you do the 13-month average. To get the plant in service for each month, you would have additions and retirements in each month, is that correct?

4:25:13 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace And the additions would be reflecting plant going into service, correct?

4:25:19 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace So, if you had a project on which you spent a certain amount of capital and that plant went in service in a particular month, it would show up as an addition in that particular month, correct?

4:25:44 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace You responded to Staff's Second Request for Information. It was Item 8. I think you were the one that was responsible for responding to that.

4:26:06 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace It's Staff's Second Request for Information, Item 8.

4:26:31 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace I'm sorry. Item 7. I apologize. I went to the wrong one.

4:26:48 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace Item C, there, it says, "Provide an Excel spreadsheet with a monthly breakdown of the additions and retirements in each line of pages 7 through 12 of Schedule B," and I don't know if you have that attachment. It's Attachment -

4:27:12 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace Well, do you recall if this document - it indicates - it has the beginning balance, and then it shows additions and retirements in each month of the forecasted test period. Would you dispute that that is the additions and retirements of each month that was used to calculate the 13-month average for plant in service during the forecasted test period?

4:27:42 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace The same thing on Staff - it's Number 6 right before that Number 7, and, at D, we'd asked for a breakdown of the additions and retirements in each month of the base period, if you could take a look at the attachment you all provided.

4:28:17 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace Well, let's say that's what we requested, and you all provided that, and it shows additions and retirements each month, and then it shows the ending balance, and, for each month, the ending balance is calculated by taking the additions in that month and the retirements of that month and subtracting the retirements from the additions and then adding that to the ending balance of the previous month. Does that sound accurate?

4:28:52 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace Now, these two documents together show the monthly additions for the base period which ends the end of November 2019 and for the forecasted test period which ends April 1st of 2020, but because we requested the base period and forecasted test period, we don't have the additions and retirements from December of 2019 to March 31, 2020.

4:29:32 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace Well, would you agree, if you took the plant in service on these documents as of the end of - so you have the one for the base period, and you take the plant in service as of March 2020, you would then have the sum - you would have the additions for that period and less the retirements?

4:30:15 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace So that, if you took those two, you'd get basically - would you agree that the additions, if it went up, if the plant in service went up during that four-month period, that the additions that are reflected in that period would at least be the amount that it went up for that period?

4:30:53 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace So, assuming there were zero retirements, you know, that would reflect the additions, but there might also be additions that were, you know, if there were retirements, the additions actually might have been more during that four-month period, correct?

4:31:16 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace I know you can't see the numbers, but, if I were to represent that, if you took the monthly additions from the document provided during the base period just from January 2019 through November 2019, you took the difference during that four-month period, then you also took the additions in 2020 where we have the monthly additions through the end of December 2020, if the sum of those additions and the amount in the period between the two periods, if that were greater than the projected capital expenditures, or would there be any reason why that would be greater than the projected capital expenditures in 2019 and 2020 shown on this Tab 22?

4:32:22 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace So you're saying that there could have been construction work in progress that was placed in service during that period?

4:32:41 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace What if the sum exceeded the construction work in progress and the additions in those two years?

4:32:52 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace Would there be any reason for that to occur though?

4:33:02 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace And you do agree that these numbers, here, though are actually spending numbers, and that some of these projects will be placed in service at a later date, so they really shouldn't be reflected in plant in service, correct?

4:33:30 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace And that's like the Woodsdale new generation seventeen million where it's got fifty-nine million in 2021?

4:33:38 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace And, potentially, there would be construction work in progress on this normal recurring construction, but we don't necessarily know what that amount would be, is that correct?

4:33:53 PM Vice Chairman Cicero - witness Jacobi
Note: Sacre, Candace Examination. So let me interject for just a moment. His line of questioning has to do with the capital project on your three-plan here along with the CWIP, okay?

4:34:06 PM Vice Chairman Cicero - witness Jacobi
Note: Sacre, Candace And there's four months of 2021, and there's eight months of 2020, is that right?

4:34:17 PM Vice Chairman Cicero - witness Jacobi
Note: Sacre, Candace Thirteen months, okay.

4:34:21 PM Vice Chairman Cicero - witness Jacobi
Note: Sacre, Candace In your forecasting methodology, do you go in and look at when the projected placed in service is for these spending dollars that you've identified, here, on this page?

4:34:46 PM Vice Chairman Cicero - witness Jacobi
Note: Sacre, Candace So, when I look at the exhibit that Mr. Bellamy is referring to and I see \$59 million for Woodsdale, that entire fifty-nine million is not necessarily included in the test period or in the forecast period, or it is?

4:35:09 PM Vice Chairman Cicero - witness Jacobi
Note: Sacre, Candace So the amount that's shown here doesn't necessarily reflect what the capital projects are that are going to go into the forecasted period?

4:35:22 PM Vice Chairman Cicero - witness Jacobi
Note: Sacre, Candace Okay, so what's on here isn't a reflection of what Duke is requesting in terms of capital - not requesting, but reflecting the projected capital spending?

4:35:41 PM Vice Chairman Cicero
Note: Sacre, Candace Do you have anything else, Mr. Bellamy?

4:35:44 PM Staff Atty Bellamy PSC
Note: Sacre, Candace Not on this particular topic, but I did have other questions.

4:36:07 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace Cross Examination (con'td). At the bottom of page 19 of your direct testimony, you said, it's line 21, "The forecasted depreciation for existing gas and electric plant is calculated by multiplying the depreciable plant by appropriate composite depreciation rates. (Click on link for continued quotation."

4:36:42 PM Staff Atty Bellamy PSC - witness PSC
Note: Sacre, Candace I think elsewhere we had asked about your capital projections, and you indicated that you had done capital projections based on additions are made within a few categories, project classes per function, and on the plant-in-service schedule, you have six things listed. (Click on link for continued comments.)

4:37:13 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace Down here, at the bottom, when it's talking about depreciation rates, is there a particular composite depreciation rate? To determine the depreciation rates for for the forecasted capital expenditures, you're multiplying it by the composite rate for each one of those six items, is that correct?

4:37:41 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace Because, in the plant and service projections, you broke the plant in service into those six categories, and then everything was classified as construction not classified within those categories, and that's what I'm asking, so when you're determining the depreciation expense for the forecasted period, you're doing that based on the forecasted capital additions in those months and multiplying it by the composite rate for those six categories, whichever one of the six it falls into?

4:38:43 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace But, if the plant additions are not forecasted in any more detail other than putting in those six categories, how would you know which composite rate to apply if you weren't applying the rate for just that category?

4:39:18 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace Would there be another witness who could more easily answer that question?

4:39:34 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace I'll ask her. If she's not able to, we can get a post-hearing data request.

4:39:48 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace Could you refer to your rebuttal testimony at page 6? And you note that the forward curve is representative of the current market expectations for interest rates.

4:40:01 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace As a post-hearing data request, could you provide an update to Schedule J, using the most current forward curve interest rates for the forecasted September 2020 issuance as well as an update to the forecasted SD projected rate?

4:40:20 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace And I can obviously put that in writing when we do the - but you would be able to do that?

4:40:21 PM POST-HEARING DATA REQUEST
Note: Sacre, Candace STAFF ATTY BELLAMY PSC - WITNESS JACOBI
Note: Sacre, Candace UPDATE TO SCHEDULE J USING MOST CURRENT FORWARD CURVE INTEREST RATES FOR FORECASTED SEPTEMBER 2020 ISSUANCE - UPDATE TO FORECASTED ST PROJECTED RATE

4:41:06 PM Staff Atty Bellamy PSC - witness Jacobi
Note: Sacre, Candace In your rebuttal, you indicated, in responding Mr. Kollen's testimony, that the projected use of contractors was higher than employees - or the projected use of contractors was higher, but employee payroll was lower than the projections. Is there any reason why the use of contractors was higher in that period that you're aware of?

4:42:05 PM Staff Atty Bellamy PSC
Note: Sacre, Candace I don't have any more questions. Thank you.

4:42:07 PM Vice Chairman Cicero
Note: Sacre, Candace Commissioner Mathews?

4:42:08 PM Commissioner Mathews
Note: Sacre, Candace I don't have any questions.

4:42:11 PM Vice Chairman Cicero - witness Jacobi
Note: Sacre, Candace Examination. Looking at the list of capital projects that are segregated by category, Mr. Moseley talked to plant forecasting of capital projects, and you've got solar energy enegy production, transmission, distribution, meters, a whole list of different projects. Are there different departments responsible for providing what those capital projects are?

4:42:58 PM Vice Chairman Cicero - witness Jacobi
Note: Sacre, Candace Is there anybody here that would talk to those pieces of this forecast, or is that something -

4:43:21 PM Vice Chairman Cicero - witness Jacobi
Note: Sacre, Candace But the batteries?

4:43:29 PM Vice Chairman Cicero - witness Jacobi
Note: Sacre, Candace What is capital challenge?

4:44:06 PM Vice Chairman Cicero - witness Jacobi
Note: Sacre, Candace Is there any incentive that goes with meeting that target, or is this -

4:44:44 PM Vice Chairman Cicero - witness Jacobi
Note: Sacre, Candace If the capital challenge dollars aren't met, does that mean that the numbers that are reflected here could be higher by whatever that shortfall is?

4:45:10 PM Vice Chairman Cicero - witness Jacobi
Note: Sacre, Candace One last question regarding the all other category. I think you mentioned it's extrapolated. Do you mean it's extrapolated by a percentage, or are the projects specifically identified but thrown into that category?

4:45:36 PM Vice Chairman Cicero - witness Jacobi
Note: Sacre, Candace It's the - let me see if I can find it here. I think it was the 1-0 - I know it was the other produciton plant at the time there was - it's been a while.

4:46:15 PM Staff Atty Bellamy PSC
Note: Sacre, Candace Are you talking about normal recurring construction amounts?

4:46:18 PM Vice Chairman Cicero - witness Jacobi
Note: Sacre, Candace That might be it, but I think - isn't that part of the other items we already are talking about when we talk about the capital challenge and all those? Aren't those part of this normal recurring construction or not?

4:46:36 PM Vice Chairman Cicero - witness Jacobi
Note: Sacre, Candace Well, all of that group that makes up the one-o-seven, the eighty-eight, and the seventy-two. Is that similar to normal recurring construction?

4:46:56 PM Vice Chairman Cicero - witness Jacobi
Note: Sacre, Candace Yes, that one, as compared to the breakdown of -

4:47:22 PM Vice Chairman Cicero - witness Jacobi
Note: Sacre, Candace So, for '21, the four months that are in '21, are there costs in there that are extrapolated as an unknwn change, but, as a matter of escalation, they're extrapolated?

4:47:50 PM Vice Chairman Cicero - witness Jacobi
Note: Sacre, Candace So not really known and measurable but a forecast?

4:48:04 PM Vice Chairman Cicero - witness Jacobi
Note: Sacre, Candace And it's escalated at what factor?

4:48:27 PM Vice Chairman Cicero - witness Jacobi
Note: Sacre, Candace Okay. If you can verify that, that would - one percent certainly seems reasonable.

4:48:53 PM Vice Chairman Cicero
Note: Sacre, Candace I don't think I have anything else. Redirect?

4:48:57 PM	Atty Samford Duke Kentucky Note: Sacre, Candace	No, Your Honor.
4:49:00 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Boehm? No?
4:49:01 PM	Asst Atty Gen McNeil Note: Sacre, Candace	Nothing further.
4:49:02 PM	Atty Howard NKU Note: Sacre, Candace	One, if I may.
4:49:03 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Howard?
4:49:06 PM	Atty Howard NKU - witness Jacobi Note: Sacre, Candace	Recross Examination. Mr. Moseley deferred to you to answer a question that I presented to him; that being, do you know what the total cost is -
4:49:16 PM	Atty Howard NKU Note: Sacre, Candace	Thank you. That's it.
4:49:18 PM	Atty Howard NKU - witness Jacobi Note: Sacre, Candace	I might as well clarify. That was for the conversion from propane to diesel fuel?
4:49:24 PM	Atty Howard NKU Note: Sacre, Candace	Thank you. Just wanted to make sure.
4:49:26 PM	Staff Atty Bellamy PSC Note: Sacre, Candace	I did have one follow up.
4:49:29 PM	Staff Atty Bellamy PSC - witness Jacobi Note: Sacre, Candace	Recross Examination. You indicated several times in our request for information - it's at your Response to Staff's Request 2-8, but I think you said it several times. I'm sorry. At 2-7. We'd asked about why the additions were classified as completed construction not classified. (Click on link for complete quotation.)
4:50:42 PM	Staff Atty Bellamy PSC - witness Jacobi Note: Sacre, Candace	The way that I read the second sentence, "forecasted additions are the result" and then "assumptions," and "forecasted additions are the result of forecasted capital spend and assumptions for when the spend will be placed into service." Does that indicate that your - for determining the plant in service that's included in the rate case, the additions, you are actually moving them forward based on when the plant will be placed into service?
4:51:36 PM	Staff Atty Bellamy PSC - witness Jacobi Note: Sacre, Candace	I know, but I'm saying, for the additions to plant in service that were used to calculate rate base for this case, you base it on the capital budget and assumptions on when the spending would go into effect. My question is, did you actually move capital spend from a certain month to a later month based on when it would be placed in service?
4:52:31 PM	Staff Atty Bellamy PSC - witness Jacobi Note: Sacre, Candace	This tab 22, again, these amounts up here for normal recurring construction in '19, '20, and '21, there's the hundred and eight million, the ninety million, and seventy-four million. When determining the plant additions to determine the rate base for this case, do you know whether any of those amounts were adjusted for when the plant would be placed into service?
4:53:04 PM	Staff Atty Bellamy PSC - witness Jacobi Note: Sacre, Candace	Adjust the plant in service account - the projections of the plant in service based on when the plant for which this spending was done is going to be placed in service. Do you know whether or not that was done?

4:53:22 PM	Staff Atty Bellamy PSC - witness Jacobi Note: Sacre, Candace	Again, here, at tab 22, you have projected spending for 2019, 2020, and 2021, for normal recurring construction. It's a hundred and eight million, ninety million, and seventy-four million. Those amounts are based on when that money's going to be spent, correct?
4:53:58 PM	Staff Atty Bellamy PSC - witness Jacobi Note: Sacre, Candace	These amounts, did you take these amounts and adjust the additions to plant in service based on when the projects for which these amounts represent will be placed into service?
4:54:30 PM	Staff Atty Bellamy PSC - witness Jacobi Note: Sacre, Candace	But budget and capital expenditures, you testified earlier, were based on when the spending occurs pursuant to the guidelines which say that the budgeting is based on the accrual?
4:55:02 PM	Staff Atty Bellamy PSC Note: Sacre, Candace	Okay. I don't have any more questions. Thank you.
4:55:04 PM	Vice Chairman Cicero Note: Sacre, Candace	
4:55:10 PM	Atty D'Ascenzo Duke Kentucky Note: Sacre, Candace	Anything else? Does anybody else have any other questions? May this witness be excused?
4:55:16 PM	Vice Chairman Cicero Note: Sacre, Candace	Certainly, Your Honor. You had a question about confirming that one percent, if I could ask just one question.
4:55:18 PM	Atty D'Ascenzo Duke Kentucky - witness Jacobi Note: Sacre, Candace	Sure, go ahead.
4:55:35 PM	Atty D'Ascenzo Duke Kentucky - witness Jacobi Note: Sacre, Candace	Redirect Examination. Mr. Jacobi, could you please refer to page 24 of your direct testimony, lines 18 through 21?
4:55:46 PM	Atty D'Ascenzo Duke Kentucky - witness Jacobi Note: Sacre, Candace	If you would look at that, is that where you discuss the one percent?
4:56:10 PM	Atty D'Ascenzo Duke Kentucky - witness Jacobi Note: Sacre, Candace	I'm sorry. Lines 18 through 20.
4:56:25 PM	Atty D'Ascenzo Duke Kentucky Note: Sacre, Candace	The question beginning, "How was the O&M revised and extended through the forecasted period?"
4:56:26 PM	Vice Chairman Cicero Note: Sacre, Candace	Thank you.
4:56:32 PM	Vice Chairman Cicero Note: Sacre, Candace	Thank you. Now, may this witness be excused?
4:56:38 PM	Atty Boehm Kroger Note: Sacre, Candace	Mr. Boehm, you had an exhibit. Were you intending to offer this into evidence?
4:56:45 PM	KROGER EXHIBIT 1 Note: Sacre, Candace Note: Sacre, Candace	Yes, Your Honor, could that be marked as Kroger Exhibit 1?
4:56:51 PM	Vice Chairman Cicero Note: Sacre, Candace	ATTY BOEHM KROGER - WITNESS JACOBI RESPONSES TO KROGER'S FIRST SET OF DATA REQUESTS RECEIVED 10/14/2019
4:56:58 PM	Atty Honaker Duke Kentucky Note: Sacre, Candace	Okay. Do you have another witness?
4:57:56 PM	Vice Chairman Cicero Note: Sacre, Candace	Dr. Ben Passty.
4:58:03 PM	Vice Chairman Cicero Note: Sacre, Candace	Witness is sworn.
		Ms. Honaker?

4:58:05 PM Atty Honaker Duke Kentucky - witness Passty
Note: Sacre, Candace Direct Examination. Good afternoon. Can you state your name for the record, please?

4:58:12 PM Atty Honaker Duke Kentucky - witness Passty
Note: Sacre, Candace And what is your position with the company and your business address?

4:58:25 PM Atty Honaker Duke Kentucky - witness Passty
Note: Sacre, Candace And did you cause testimony and certain Responses to Data Requests to be filed in this proceeding?

4:58:31 PM Atty Honaker Duke Kentucky - witness Passty
Note: Sacre, Candace And, if I were to ask you those same questions today, would your answers be the same?

4:58:36 PM Atty Honaker Duke Kentucky - witness Passty
Note: Sacre, Candace Do you have any corrections to any of those?

4:58:39 PM Atty Honaker Duke Kentucky - witness Passty
Note: Sacre, Candace Is it your desire and intent to have those documents incorporated into the record of this proceeding?

4:58:45 PM Atty Honaker Duke Kentucky
Note: Sacre, Candace He's available for cross.

4:58:46 PM Vice Chairman Cicero
Note: Sacre, Candace Mr. Boehm?

4:58:47 PM Atty Boehm Kroger
Note: Sacre, Candace Thank you, Your Honor.

4:58:49 PM Atty Boehm Kroger - witness Passty
Note: Sacre, Candace Cross Examination. Good afternoon, Mr. Passty. You present the long-term electric forecast for the company, is that correct?

4:58:59 PM Atty Boehm Kroger - witness Passty
Note: Sacre, Candace And can you please turn to Attachment EWP-2?

4:59:26 PM Atty Boehm Kroger - witness Passty
Note: Sacre, Candace So this is your energy forecast which goes all the way up to 2039, is that correct?

4:59:47 PM Atty Boehm Kroger - witness Passty
Note: Sacre, Candace And I'm just going down the residential column, the growth that you saw, that Duke Energy saw, over the last five years and the growth that you project is relatively flat in that category, correct?

4:59:47 PM Atty Boehm Kroger - witness Passty
Note: Sacre, Candace And, just looking at some of these numbers, you have this broken down by customer group, residential, commercial, industrial, street/highway lighting, et cetera?

5:00:20 PM Atty Boehm Kroger - witness Passty
Note: Sacre, Candace And then your projections over the next five years are also - go up a little bit but are also pretty flat?

5:00:29 PM Atty Boehm Kroger - witness Passty
Note: Sacre, Candace And you could say the same of the commercial group?

5:00:38 PM Atty Boehm Kroger - witness Passty
Note: Sacre, Candace Now, the industrial group, that's not the case; you're showing approximately 815,000 megawatt hours of sales in 2020?

5:00:56 PM Atty Boehm Kroger - witness Passty
Note: Sacre, Candace That increases by 85,000 megawatt hours in 2021?

5:01:04 PM Atty Boehm Kroger - witness Passty
Note: Sacre, Candace And then another 150,000 megawatt hours in 2022?

5:01:11 PM Atty Boehm Kroger - witness Passty
Note: Sacre, Candace What accounts for this growth?

5:01:30 PM	Atty Boehm Kroger - witness Passty Note: Sacre, Candace	Perhaps, I can help you, but you do state it publicly somewhere in here, I don't have it marked, but I think that you state that it's because of one very large customer.
5:01:46 PM	Atty Boehm Kroger - witness Passty Note: Sacre, Candace	And we don't need to get into the details of that, but - so, essentially, you're projecting that between 2020 and 2022, a 30 percent increase in industrial load, approximately?
5:02:06 PM	Atty Boehm Kroger - witness Passty Note: Sacre, Candace	That is the primary factor in about a six-and-a-half percent increase in total sales?
5:02:14 PM	Atty Boehm Kroger - witness Passty Note: Sacre, Candace	And when is the test year in this case?
5:02:25 PM	Atty Boehm Kroger - witness Passty Note: Sacre, Candace	Okay. March 31, 2021?
5:02:28 PM	Atty Boehm Kroger - witness Passty Note: Sacre, Candace	So the test year goes for the first three months of 2021?
5:02:38 PM	Atty Boehm Kroger - witness Passty Note: Sacre, Candace	So, essentially, what your load forecast shows is sort of right on the heels of the test year a six-and-a-half percent increase in total megawatt sales?
5:02:54 PM	Atty Boehm Kroger - witness Passty Note: Sacre, Candace	And your rates are based on mostly 2020 and early 2021 sales, correct?
5:03:10 PM	Atty Boehm Kroger - witness Passty Note: Sacre, Candace	If your rates were based on 2020 and early 2021 sales and then Duke Energy experienced a six-and-a-half percent growth in megawatt sales shortly thereafter, could you be in an over-earning situation pretty quickly?
5:03:57 PM	Atty Boehm Kroger - witness Passty Note: Sacre, Candace	So what you're saying is that you would be over-earning on the industrial piece but not on the commercial and residential piece?
5:04:17 PM	Atty Boehm Kroger - witness Passty Note: Sacre, Candace	That's my question.
5:04:29 PM	Atty Boehm Kroger Note: Sacre, Candace	Thank you. Those are all the questions I have.
5:04:32 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. McNeil?
5:04:33 PM	Asst Atty Gen McNeil Note: Sacre, Candace	I don't have any questions.
5:04:36 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Howard?
5:04:37 PM	Atty Howard NKU Note: Sacre, Candace	No, thank you.
5:04:38 PM	Asst Gen Counsel Nguyen Note: Sacre, Candace	No questions.
5:04:38 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Nguyen?
5:04:39 PM	Commissioner Mathews Note: Sacre, Candace	No.
5:04:42 PM	Vice Chairman Cicero Note: Sacre, Candace	I don't have any questions.
5:04:43 PM	Atty Honaker Duke Kentucky Note: Sacre, Candace	No redirect.

5:04:44 PM	Vice Chairman Cicero Note: Sacre, Candace	No redirect, okay. Thank you. Now, we can break for dinner. Let's be back at 6:15. We're in recess.
5:05:13 PM	Session Paused	
6:17:20 PM	Session Resumed	
6:17:22 PM	Vice Chairman Cicero Note: Sacre, Candace	We are back on the record. Mr. D'Ascenzo?
6:17:25 PM	Atty D'Ascenzo Duke Kentucky Note: Sacre, Candace	Thank you, Your Honor. For its next witness, Duke Energy Kentucky would call Paul Halstead.
6:17:38 PM	Vice Chairman Cicero Note: Sacre, Candace	Witness sworn.
6:17:48 PM	Atty D'Ascenzo Duke Kentucky - witness Halstead Note: Sacre, Candace	Direct Examination. Good evening, Mr. Halstead. Would you please state your name, position with the company, and your business address for the record, please?
6:18:07 PM	Atty D'Ascenzo Duke Kentucky - witness Halstead Note: Sacre, Candace	And, Mr. Halstead, did you cause to file testimony in this proceeding?
6:18:12 PM	Atty D'Ascenzo Duke Kentucky - witness Halstead Note: Sacre, Candace	And, through that testimony, are you adopting the testimony of company witness, Andrew Rich?
6:18:18 PM	Atty D'Ascenzo Duke Kentucky - witness Halstead Note: Sacre, Candace	Are you also adopting the Data Requests that Mr. Rich previously sponsored?
6:18:25 PM	Atty D'Ascenzo Duke Kentucky - witness Halstead Note: Sacre, Candace	And could you just explain briefly for the record why you were doing that?
6:18:40 PM	Atty D'Ascenzo Duke Kentucky - witness Halstead Note: Sacre, Candace	Thank you, and do you have any corrections or changes to either your direct testimony, to that of Mr. Rich, or any of the Data Requests that were previously submitted?
6:18:53 PM	Atty D'Ascenzo Duke Kentucky - witness Halstead Note: Sacre, Candace	And, if you were asked all of those questions today, then your answers would be the same?
6:18:57 PM	Atty D'Ascenzo Duke Kentucky Note: Sacre, Candace	Thank you, Your Honor. The witness is available for cross examination.
6:19:00 PM	Vice Chairman Cicero Note: Sacre, Candace	Thank you. Mr. Boehm?
6:19:01 PM	Atty Boehm Kroger Note: Sacre, Candace	No questions, Your Honor.
6:19:02 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. McNeil?
6:19:03 PM	Asst Atty Gen McNeil Note: Sacre, Candace	I have no questions for this witness.
6:19:05 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Howard?
6:19:06 PM	Atty Howard NKU Note: Sacre, Candace	I have no questions at this time, Mr. Vice Chairman. Thank you.
6:19:08 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Nguyen?
6:19:09 PM	Asst Gen Counsel Nguyen PSC Note: Sacre, Candace	Yes, Your Honor, just a few.

6:19:12 PM	Asst Gen Counsel Nguyen PSC - witness Halstead Note: Sacre, Candace	Cross Examination. Good evening, Mr. Halstead. So just the mechanics of the Green Source tariff. A customer approaches Duke Kentucky to purchase one megawatt of renewable energy, and Duke Kentucky goes out in the market and pays a PPA for that on behalf of the customer, is that correct?
6:19:43 PM	Asst Gen Counsel Nguyen PSC - witness Halstead Note: Sacre, Candace	And then that power that is generated from that particular resource is then sold into the wholesale market, correct?
6:19:51 PM	Asst Gen Counsel Nguyen PSC - witness Halstead Note: Sacre, Candace	Any revenues or the netted, I guess, the costs, the contract costs, is that correct?
6:20:12 PM	Asst Gen Counsel Nguyen PSC - witness Halstead Note: Sacre, Candace	But, before it gets applied to the customer's bill, the revenue that's generated, is there a netting of that particular revenue before?
6:20:24 PM	Asst Gen Counsel Nguyen PSC - witness Halstead Note: Sacre, Candace	So, if the revenue is more than what the - well, can you just step me through that process?
6:21:00 PM	Asst Gen Counsel Nguyen PSC - witness Halstead Note: Sacre, Candace	Okay, so the charges that are - that the revenue from PJM on the wholesale that's applied to that charge for the cost of the facilities, is that a contractual cost, or how is that obligated to be?
6:21:46 PM	Asst Gen Counsel Nguyen PSC - witness Halstead Note: Sacre, Candace	Okay, so there's no subsidization at all based upon this arrangement?
6:21:56 PM	Asst Gen Counsel Nguyen PSC - witness Halstead Note: Sacre, Candace	Okay. Has there been any large commercial or industrial customers who have expressed this type of interest to Duke Kentucky?
6:22:04 PM	Asst Gen Counsel Nguyen PSC - witness Halstead Note: Sacre, Candace	There has been?
6:22:06 PM	Asst Gen Counsel Nguyen PSC - witness Halstead Note: Sacre, Candace	Do you know how much in terms of - or has there been any specific details in terms of the amount of power that's needed?
6:22:53 PM	Asst Gen Counsel Nguyen PSC - witness Halstead Note: Sacre, Candace	Right, okay, so, right now, it's just too preliminary to know how much that (inaudible) would be?
6:23:03 PM	Asst Gen Counsel Nguyen PSC - witness Halstead Note: Sacre, Candace	And so the minimum threshold for an individual customer is one megawatt?
6:23:26 PM	Asst Gen Counsel Nguyen PSC - witness Halstead Note: Sacre, Candace	So those would be like a Kroger or a Walmart or some similar type of customer?
6:23:39 PM	Asst Gen Counsel Nguyen PSC Note: Sacre, Candace	Those are all the questions I have.
6:23:41 PM	Vice Chairman Cicero Note: Sacre, Candace	Commissioner Mathews?
6:23:43 PM	Commissioner Mathews Note: Sacre, Candace	I have no questions.
6:23:44 PM	Vice Chairman Cicero Note: Sacre, Candace	I have no questions. Redirect?
6:23:47 PM	Atty D'Ascenzo Duke Kentucky Note: Sacre, Candace	No, Your Honor.
6:23:49 PM	Atty Howard NKU Note: Sacre, Candace	No, Mr. Vice Chairman. Thank you.

6:23:50 PM	Vice Chairman Cicero Note: Sacre, Candace	May this witness be excused?
6:23:52 PM	Atty D'Ascenzo Duke Kentucky Note: Sacre, Candace	Yes, please.
6:23:57 PM	Vice Chairman Cicero Note: Sacre, Candace	And you may call your next witness.
6:23:59 PM	Atty D'Ascenzo Duke Kentucky Note: Sacre, Candace	Thank you, Your Honor, For our next witness, Duke Energy Kentucky calls Dr. Zachary Kuznar.
6:24:13 PM	Vice Chairman Cicero Note: Sacre, Candace	Witness is sworn.
6:24:21 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. D'Ascenzo?
6:24:23 PM	Atty D'Ascenzo Duke Kentucky Note: Sacre, Candace	Thank you, Your Honor.
6:24:24 PM	Atty D'Ascenzo Duke Kentucky - witness Kuznar Note: Sacre, Candace	Direct Examination. Good evening, Dr. Kuznar. Would you please state your name, position with the company, and business address for the record?
6:24:42 PM	Atty D'Ascenzo Duke Kentucky - witness Kuznar Note: Sacre, Candace	And, Dr. Kuznar, did you cause to be filed testimony and Responses to Data Requests in this proceeding?
6:24:51 PM	Atty D'Ascenzo Duke Kentucky - witness Kuznar Note: Sacre, Candace	Do you have any changes or corrections to either your testimony or those Data Request Responses?
6:25:00 PM	Atty D'Ascenzo Duke Kentucky - witness Kuznar Note: Sacre, Candace	And, if you were asked those same questions today, then would your answers be the same?
6:25:05 PM	Atty D'Ascenzo Duke Kentucky Note: Sacre, Candace	Thank you. Your Honor, the witness is available for cross examination.
6:25:08 PM	Vice Chairman Cicero Note: Sacre, Candace	Thank you. Mr. Boehm?
6:25:09 PM	Atty Boehm Kroger Note: Sacre, Candace	No questions, Your Honor.
6:25:10 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. McNeil?
6:25:12 PM	Asst Atty Gen McNeil Note: Sacre, Candace	Yes, thank you.
6:25:16 PM	Asst Atty Gen McNeil - witness Kuznar Note: Sacre, Candace	Cross Examination. Good evening, Mr. Kuznar. So, in your direct testimony, page 7, you mention that the battery project will require a wholesale market participation agreement with PJM in order to go ahead and participate in wholesale markets. How long do you propose that to take? How long will it take to get that agreement in place?
6:25:56 PM	Asst Atty Gen McNeil - witness Kuznar Note: Sacre, Candace	Before the in-service date?
6:26:21 PM	Asst Atty Gen McNeil - witness Kuznar Note: Sacre, Candace	And, in your rebuttal, you state there were technical complications on the Thomas More circuit and that the location of the project has now changed. Can you provide any insight on those technical complications?

6:27:08 PM Asst Atty Gen McNeil - witness Kuznar
Note: Sacre, Candace Okay, and it's now to a circuit near an existing solar facility, is that right?

6:27:15 PM Asst Atty Gen McNeil - witness Kuznar
Note: Sacre, Candace So are there certain insights and information that you were hoping to gain from having that backup at the hospital that you will not be able to get?

6:27:52 PM Asst Atty Gen McNeil - witness Kuznar
Note: Sacre, Candace So the data gained from that sort of deregulation and with the current and all that?

6:28:31 PM Asst Atty Gen McNeil - witness Kuznar
Note: Sacre, Candace So, in the direct, there's an annual revenue estimate of about \$800,000. In the rebuttal, it seems you've changed to four hundred seventy thousand. Can you explain that?

6:29:21 PM Asst Atty Gen McNeil - witness Kuznar
Note: Sacre, Candace And everything else is the same? It's still the Regulation D market, same basis for the \$20 megawatt hour estimate?

6:29:41 PM Asst Atty Gen McNeil - witness Kuznar
Note: Sacre, Candace Right, and do you have any insight as to when that might happen?

6:30:21 PM Asst Atty Gen McNeil - witness Kuznar
Note: Sacre, Candace Do you anticipate it will happen before the end of this three-year pilot?

6:30:34 PM Asst Atty Gen McNeil - witness Kuznar
Note: Sacre, Candace For the asset, okay..

6:30:51 PM Asst Atty Gen McNeil - witness Kuznar
Note: Sacre, Candace Also, in your rebuttal, at pages 11 and 12, you responded to Mr. Kollen's criticism of the pilot project. One of his reasonings to deny it was it's not economic, and you said it's wasn't proposed to be economic in isolation. Is that correct?

6:31:47 PM Asst Atty Gen McNeil - witness Kuznar
Note: Sacre, Candace So that's sort of where I was going. You called it a small pilot, and you sort of mentioned the uncertainty with the FERC Order 841 and cost benefit. I guess my question is if it's this small and it's so uncertain, why not have shareholders pay for this pilot right now, do the study and come back with data on the benefits, and then ask the Commission for dollars from ratepayers? Why not have shareholders pay for this?

6:32:28 PM Asst Atty Gen McNeil - witness Kuznar
Note: Sacre, Candace But it's still relatively uncertain when that will be implemented?

6:32:36 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace Examination. So does Duke have any other pilot projects that have battery storage?

6:32:56 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace And you're not learning from those projects?

6:32:59 PM Vice Chairman Cicero
Note: Sacre, Candace Then the purpose of this project is?

6:33:05 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace But the batteries will operate the same, won't they?

6:33:14 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace You're saying it's strictly because of the demand on the battery through PJM that's going to give you the data that you don't already have?

6:33:26 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace No, that's not what I'm asking you. What is the benefit?

6:33:31 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace What's the benefit of this pilot program over some other pilot program that Duke already has?

6:33:39 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace I know it's a completely different project. It's in Kentucky. What makes it different?

6:33:51 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace From a value to ratepayers in the Duke territory, what benefit are they going to attain by Duke doing this pilot project?

6:34:09 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace I have to agree with the Attorney General, then why don't the shareholders pay for that and find out what it's all about? They already have experience with pilot projects. I'm not quite sure what the benefit is you're trying to - as a regulator, I'm trying to find out what it is that we should agree to for Duke to spend several million dollars on to find out data selling energy into the PJM market when they're already selling to PJM but not through a battery?

6:35:31 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace If I didn't have a battery, would I still be able to sell to PJM?

6:35:37 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace Then does the battery enhance my ability to sell to PJM?

6:35:54 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace Just a source? One's coming from the battery; one's coming from -

6:35:59 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace So, again, I'm asking - and I'm not trying to be belligerent here. I'm trying to understand as a regulator why I would allow Duke to spend money on a project that really doesn't benefit the ratepayers in the immediate future because they want to establish a pilot program that, from my perspective, only advances a government directive of Duke being a renewable energy by 2050. That's the issue that I have.

6:36:58 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace And the primary reason why I would be using a battery rather than dispatching from my generation until would be what?

6:37:21 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace Are you referring to coal or gas?

6:37:26 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace I mean, I understand coal operates a little bit -

6:37:35 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace When you have battery, what's the maximum storage time on a battery?

6:38:12 PM Vice Chairman Cicero
Note: Sacre, Candace I'm sorry I interrupted you, but it was a few questions I wanted to ask there. I may ask more. I'm not sure. Please continue with your -

6:38:23 PM Asst Atty Gen McNeil
Note: Sacre, Candace I think I'm almost done here.

6:38:26 PM Asst Atty Gen McNeil - witness Kuznar
Note: Sacre, Candace Cross Examination (cont'd). I just want to clarify, so there's no change to the annual ongoing cost of operation with the move? Is that correct?

6:38:49 PM Asst Atty Gen McNeil - witness Kuznar
Note: Sacre, Candace And have you broken out specific sort of opportunities for capacity value if that's even possible within the PJM network?

6:39:15 PM Asst Atty Gen McNeil
Note: Sacre, Candace Okay. No more questions.

6:39:17 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Howard?
6:39:19 PM	Atty Howard NKU Note: Sacre, Candace	Just a few. I think Mr. McNeil and you asked a lot of the questions that I was otherwise going to ask, but I just have a few, if I may.
6:39:30 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	Cross Examination. If you'll look at your prefiled testimony, please, at pages 4 and 5?
6:39:36 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	The original. We may get to the rebuttal in a moment.
6:39:51 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	If you'll look at the bottom of page 4, the question reading, "What is the purpose of and the need for this project?" Would you read the answer into the record, please?
6:40:27 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	So, in your answer, with regard to the role of the storage project, you use the word "expected" and not "will," correct? ". . .storage is expected to play an increasingly important role. . ." You didn't say, "Energy storage will play an increasingly important role," correct?
6:40:53 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	Insofar as the project, you say, "It will give valuable insight?"
6:41:01 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	That's not "experience." "Experience" is a different than a "valuable insight," correct?
6:41:12 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	Well, a "valuable insight" is something that you're going to learn going forward, right?
6:41:21 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	If you'll look at page 5 of your testimony, lines 10 through 12, you state, "Duke Energy Kentucky anticipates energy storage could be deployed as a routine solution in the future for transmission or distribution upgrades," correct?
6:41:40 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	Again, you use the word "anticipates" and not "will," correct?
6:41:49 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	Please refer to your testimony at page 8, lines at lines 15 and 16. Do you state, "Additionally, customers will benefit from lessons learned from this project that will enable future deployments of energy storage products?"
6:42:13 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	Is it your opinion that the ratepayer should pay for these "lessons" that are going to be learned and not the shareholders?
6:42:30 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	Well, even as this Application's been filed, the battery storage project has been updated, as you stated a moment ago, correct?
6:42:39 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	So we're learning even as this Application is proceeding?
6:42:47 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	Who's paying for this hearing? Duke has filed an Application and, as part of this Application, has asked for this battery storage pilot. Are the ratepayers paying for you to be here and testify about this project?
6:43:09 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	Do you know if your attorneys are being paid to be here to represent you today?

6:43:28 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	At page 9, you also discuss benefits of the pilot, correct? Page 9, let me get you a line number. If you'll look at lines 19 and 20, the question being, "Please discuss the information that Duke Energy Kentucky will obtain under the pilot." If you could read the answer into the record?
6:45:06 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	So this pilot will provide "confirmation of certain values." Is that the way that you'd characterize it?
6:45:15 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	And Duke will gain "operational knowledge." Again, we're learning, correct?
6:45:28 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	In response to Assistant Attorney General McNeil and also, I believe, the Vice Chairman, it's my understanding this is going to be the first battery in the PJM market?
6:45:47 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	And, in your response to Counsel McNeil, you also characterized that as an opportunity "to learn," correct?
6:46:04 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	And, again, this goes back to, do you think it's fair that the ratepayers provide Duke shareholders any benefits as a consequence of our paying for Duke shareholders? We're going to pay for you all to learn, the shareholders?
6:46:30 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	Are you familiar with the - do you know much about Duke Indiana?
6:46:45 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	Are you familiar with the IGCC that they built there a number of years ago?
6:46:54 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	What do you know about the facility?
6:47:06 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	I'm going to need to step back a little bit more. Do you know when Duke approached the regulators there and asked for authorization to build that plant?
6:47:19 PM	Atty Samford Duke Kentucky Note: Sacre, Candace	Your Honor, I object. I'm not entirely sure what relevance this has to a battery project in Kentucky.
6:47:25 PM	Vice Chairman Cicero Note: Sacre, Candace	Are you going to go somewhere that shows there's relevance?
6:47:29 PM	Atty Howard NKU Note: Sacre, Candace	My point here is that this is Duke's first battery in the PJM footprint.
6:47:36 PM	Vice Chairman Cicero Note: Sacre, Candace	Duke Kentucky?
6:47:37 PM	Atty Howard NKU Note: Sacre, Candace	In Kentucky. This is their first attempt, and, in Indiana, we've got an IGCC that they decided to put in Indiana. I'm just wanting to see what benefits Indiana managed to get of a new and novel idea like Kentucky might get here out of a battery storage facility.
6:47:59 PM	Atty Samford Duke Kentucky Note: Sacre, Candace	Once again, it's totally irrelevant. It's different technology, different era, different laws. I mean, you might as well to the go to the grocery store and talk about apples, oranges, and bananas.

6:48:08 PM	Atty Howard NKU Note: Sacre, Candace	Well, I'm not talking about fruit. I'm just wanting you to look at particular pilots that ended up costing ratepayers in Indiana billions of dollars, and I want him to make sure that here, in Kentucky, that the ratepayers don't up footing the bill for lessons for the shareholders of Duke Energy Kentucky.
6:48:23 PM	Atty Samford Duke Kentucky Note: Sacre, Candace	Now, he's testifying, Your Honor.
6:48:24 PM	Vice Chairman Cicero Note: Sacre, Candace	I know. I'm going to sustain the objection, and, at this point, I think we understand that we're talking about a pilot project that has to do with batteries, so if we can keep it within the context of what's going on here, in Kentucky, I think we'll be better off.
6:48:43 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	Mr. Kuznar, if the battery project is approved, you agree with Mr. Kollen and several of his recommended conditions, correct?
6:48:58 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	That's correct, Northern Kentucky University, yes.
6:49:00 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	Did you agree with all of his recommendations or just some?
6:49:08 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	I'll tell you what. I'll help you I'll help you. Look at your rebuttal at page 10.
6:50:29 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	So you have agreed, at page 10 of your rebuttal, that Duke would document all revenues generated by battery storage where they go through the rider FAC for PSM, correct?
6:50:40 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	And you would keep information and verify benefits of battery storage, correct?
6:50:45 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	And you would support the requirement to provide an updated cost benefit analysis the earlier of the company's next rate case or within six months after the project has been placed in service for three years, correct?
6:50:59 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	And then you also agree that approval of the battery project by the Commission would not be a carte blanche endorsement by NKU, is that correct?
6:51:14 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	In response to a question by Counsel McNeil, the project has a 15-year life, correct?
6:51:33 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	What's the warranty on this project?
6:52:18 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	It seems to me that I read somewhere that the warranty was two years. Am I mistaken?
6:53:02 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	And what's the warranty on that? I'm sorry.
6:53:13 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	Okay, and, the battery, is that still being designed?
6:53:25 PM	Atty Howard NKU - witness Kuznar Note: Sacre, Candace	So you're proposing a pilot for a battery that you haven't even fully designed yet, correct?

6:53:40 PM	Atty Howard NKU Note: Sacre, Candace	Okay. That's all the questions I have, Mr. Vice Chairman. Thank you.
6:53:43 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Nguyen?
6:53:44 PM	Asst Gen Counsel Nguyen PSC Note: Sacre, Candace	Yes, thank you, Your Honor.
6:53:46 PM	Asst Gen Counsel Nguyen PSC - witness Kuznar Note: Sacre, Candace	Cross Examination. Good evening, Dr. Kuznar. On your direct testimony, can you go to page four of your direct testimony? I guess it starts with Line 2 through Line 12, describing PJM's frequency regulation market, so on line 5, it starts on line 5, it says, "Per PJM, frequency like regulation helps match load to generation," (Click on link for continued quotation.)
6:54:56 PM	Asst Gen Counsel Nguyen PSC - witness Kuznar Note: Sacre, Candace	That's for the PJM system as a whole, correct?
6:55:03 PM	Asst Gen Counsel Nguyen PSC - witness Kuznar Note: Sacre, Candace	Outside of the PJM system, does Duke Kentucky, as a stand-alone utility, does Duke Kentucky monitor this type of activity as well?
6:55:33 PM	Asst Gen Counsel Nguyen PSC - witness Kuznar Note: Sacre, Candace	I'm not asking you about the PJM market. I'm just asking you, if Duke Kentucky before Duke joined PJM, did it monitor the frequency regulation of its grid in order to maintain this match of load to generation to keep its grid within a proper balance?
6:56:04 PM	Asst Gen Counsel Nguyen PSC - witness Kuznar Note: Sacre, Candace	Do you know if Duke Kentucky is doing that now outside of PJM?
6:56:15 PM	Asst Gen Counsel Nguyen PSC - witness Kuznar Note: Sacre, Candace	So, going back, this battery storage project would be the first that would be connected to the PJM market for Duke Kentucky but from a Duke Energy System?
6:56:41 PM	Asst Gen Counsel Nguyen PSC - witness Kuznar Note: Sacre, Candace	And so, trying to get to the benefits, is the benefit of this strictly tied to how Duke Energy's generation system is dispatched or used by PJM system as a whole for the frequency regulation of the PJM whole power system?
6:57:50 PM	Asst Gen Counsel Nguyen PSC - witness Kuznar Note: Sacre, Candace	Would that be the same type of benefits that you would have for any other Duke Kentucky affiliate that has a battery storage that may be attached to an intermittent resource?
6:58:05 PM	Asst Gen Counsel Nguyen PSC - witness Kuznar Note: Sacre, Candace	Is it? I'm asking, is it? Has that been - well, you've not done this for Duke Kentucky.
6:58:17 PM	Asst Gen Counsel Nguyen PSC - witness Kuznar Note: Sacre, Candace	But, okay, assuming that benefits to be achieved, that's connected to an intermittent resource outside of the PJM frequency regulation market would be the associated value with that battery storage to provide backup power or power whenever that intermittent resource isn't generating power. But that would be the same type of benefits that you would see in another Duke jurisdiction if another Duke affiliate had a battery energy storage that's connected to an intermittent source, correct?
6:59:03 PM	Asst Gen Counsel Nguyen PSC - witness Kuznar Note: Sacre, Candace	So, to the extent that this wouldn't be anything that would be unusual or new to Duke Energy as a whole?
6:59:33 PM	Asst Gen Counsel Nguyen PSC - witness Kuznar Note: Sacre, Candace	So, did, if you know, did - - Duke Indiana, Duke Carolina, and North Carolina, those are both PJM members, correct?

7:00:18 PM Asst Gen Counsel Nguyen PSC - witness Kuznar
Note: Sacre, Candace Let me ask you this. Does Duke Kentucky currently participate in the PJM frequency regulation or in the ancillary services market with respect to frequency regulation?

7:00:45 PM Asst Gen Counsel Nguyen PSC - witness Kuznar
Note: Sacre, Candace Woodsdale because of its fast starting capability?

7:00:48 PM Asst Gen Counsel Nguyen PSC - witness Kuznar
Note: Sacre, Candace So East Bend has never?

7:00:59 PM Asst Gen Counsel Nguyen PSC - witness Kuznar
Note: Sacre, Candace Do you know how much revenues within the last year or two that's been generated from Woodsdale participating in the frequency market?

7:01:11 PM Asst Gen Counsel Nguyen PSC - witness Kuznar
Note: Sacre, Candace Do you know if an intermittent generation facility would be capable of providing frequency regulation?

7:01:35 PM Asst Gen Counsel Nguyen PSC
Note: Sacre, Candace Those are all the questions I have.

7:01:38 PM Vice Chairman Cicero
Note: Sacre, Candace Commissioner Mathews?

7:01:41 PM Commissioner Mathews - witness Kuznar
Note: Sacre, Candace Examination. Do you have a capacity value for PJM that would flip your cost benefit analysis positive?

7:01:57 PM Commissioner Mathews - witness Kuznar
Note: Sacre, Candace You kept mentioning that this was the first Duke regulated battery that participates in PJM?

7:02:14 PM Commissioner Mathews - witness Kuznar
Note: Sacre, Candace And you said "regulated" several times. Does that mean there's a facility in an Ohio in the deregulated half that participates in PJM?

7:02:26 PM Commissioner Mathews - witness Kuznar
Note: Sacre, Candace And how is it behaving? What type of generation source does it attach to?

7:02:55 PM Commissioner Mathews
Note: Sacre, Candace That's all I have.

7:02:58 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace Examination. So let's go right there to that point, and there's a lot of information that can't be shared because of between the regulated and nonregulated. Enlighten me. Which regulation is it that -

7:03:36 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace Is this project going to cost approximately a million dollars?

7:03:44 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace And the five-point-five megawatt was going to be approximately eight-point-two million dollars as well?

7:03:49 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace So you downsized it, for the same amount of money, generating four hundred and seventy thousand estimated revenue versus eight hundred thousand?

7:04:04 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace A hundred sixty-three thousand dollars a year to operate?

7:04:09 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace Leaving, if you wanted to do a straight cash flow, three hundred and seven thousand dollars a year positive, not counting carrying cost or anything else?

7:04:18 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace Twenty-seven years to recover without carrying costs?

7:04:25 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace Meaning there is no recovery and never will be, in fact? And you can say yes.

7:04:37 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace Well, do you expect them to change dramatically?

7:04:43 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace In your opinion, do you expect it to change dramatically?

7:04:50 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace Thank you for being honest with that, so I've got a two-year manufacturer warranty. What's the manufacturer's estimated useful life?

7:05:18 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace That's a separate warranty you're going to purchase, is it not?

7:05:24 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace It's a separate warranty, right? It's not an original warranty from the OEM? It's a separate warranty?

7:05:30 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace So what is the estimated useful life from the manufacturer?

7:05:38 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace What does the manufacturer say the life of the battery is?

7:05:48 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace So what we're saying is there is an expected failure of the battery so you purchase a warranty in order to replace it and extend it to 15 years?

7:06:29 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace What's the cost of that warranty?

7:06:44 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace So you've come up with an eight-point-two million cost based on initial engineering because you have experience in pricing these out?

7:07:01 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace And do they all represent the same type of cost to operate, expected revenue, and initial capitalized cost?

7:07:36 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace So what argument did Duke use to sell other regulators that this was a good thing?

7:07:54 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace How many projects do you have in Carolina?

7:08:04 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace So nine projects, did you say, total?

7:08:09 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace Nine projects, no expected rate of return, recovery probably if you put carrying costs in there thirty-plus years, so that Duke shareholders can learn about the process?

7:08:26 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace Well, there isn't going to be any. There's going to be no recovery. No recovery of your investment. The asset will die before you ever recover the capital?

7:08:40 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace If it's similar in investment and return, the numbers speak for themselves.

7:08:53 PM Vice Chairman Cicero - witness Kuznar
Note: Sacre, Candace So your revenue is higher in other states?

7:09:00 PM	Vice Chairman Cicero - witness Kuznar Note: Sacre, Candace	Well, I'm just taking three raw numbers, the capitalized costs which you said you feel confident in. It's basically eight million dollars. Operating costs are a hundred and sixty-three thousand annually. The revenue you mentioned is four hundred and seventy thousand on this particular project?
7:09:22 PM	Vice Chairman Cicero - witness Kuznar Note: Sacre, Candace	So what would I change that to in The Carolinas?
7:09:31 PM	Vice Chairman Cicero - witness Kuznar Note: Sacre, Candace	Well, based on those numbers with no carrying cost, it's 27 years before you recover your investment?
7:09:44 PM	Vice Chairman Cicero - witness Kuznar Note: Sacre, Candace	So I can't get there from here. That's the issue that I have. I'm really concerned that this is a learning experience that ratepayers are being expected to fund for Duke.
7:10:02 PM	Vice Chairman Cicero - witness Kuznar Note: Sacre, Candace	I don't have any other questions. Mr. D'Ascenzo, do you want to redirect?
7:10:06 PM	Atty D'Ascenzo Duke Kentucky Note: Sacre, Candace	No.
7:10:08 PM	Vice Chairman Cicero Note: Sacre, Candace	Does anybody else have -
7:10:10 PM	Commissioner Mathews Note: Sacre, Candace	I do.
7:10:11 PM	Vice Chairman Cicero Note: Sacre, Candace	Commissioner Mathews?
7:10:13 PM	Commissioner Mathews - witness Kuznar Note: Sacre, Candace	Examination. On the numbers that he was going through with the 27 years, that would be assuming an energy and capacity return of zero, right?
7:10:22 PM	Commissioner Mathews - witness Kuznar Note: Sacre, Candace	You'd be getting value for energy or capacity?
7:10:25 PM	Commissioner Mathews - witness Kuznar Note: Sacre, Candace	It's probably not a realistic assumption?
7:10:30 PM	Commissioner Mathews - witness Kuznar Note: Sacre, Candace	Energy is worth something?
7:10:33 PM	Commissioner Mathews - witness Kuznar Note: Sacre, Candace	Capacity, once .841 is implemented, whether some of us agree that .841 should be implemented for retail customers or not - that's a side note - will be some positive capacity value?
7:10:53 PM	Commissioner Mathews Note: Sacre, Candace	Thanks.
7:10:55 PM	Vice Chairman Cicero Note: Sacre, Candace	Thank you very much. We have time for one more.
7:10:55 PM	Vice Chairman Cicero Note: Sacre, Candace	Anything else? May this witness be excused?
7:11:02 PM	Atty Samford Duke Kentucky Note: Sacre, Candace	We were going to be calling Jeff Setser at this point, but, of course, he's not able to be here due to the death in the family.
7:11:06 PM	Vice Chairman Cicero Note: Sacre, Candace	Right.
7:11:07 PM	Atty Samford Duke Kentucky Note: Sacre, Candace	So I think we'd agreed with Staff that those questions will be handled by post-hearing data requests.

7:11:12 PM	Vice Chairman Cicero Note: Sacre, Candace	Okay, that's fine.
7:11:15 PM	Atty Samford Duke Kentucky Note: Sacre, Candace	Do you want to do one more or two more tonight? Do you have a preference?
7:11:19 PM	Vice Chairman Cicero Note: Sacre, Candace	Can you get us a reasonable one that's -
7:11:29 PM	Atty Samford Duke Kentucky Note: Sacre, Candace	How about John Swez? I think that would be a good seque because he's the PJM expert which we were just talking about.
7:12:18 PM	Vice Chairman Cicero Note: Sacre, Candace	We can get somebody in in an hour, can't we?
7:12:20 PM	Atty Samford Duke Kentucky Note: Sacre, Candace	I would hope so.
7:12:23 PM	Vice Chairman Cicero Note: Sacre, Candace	Well, let's pick somebody.
7:12:25 PM	Commissioner Mathews Note: Sacre, Candace	He already said Mr. Swez.
7:12:37 PM	Atty Samford Duke Kentucky Note: Sacre, Candace	Come on up, John.
7:12:44 PM	Camera Lock Comm Wide Activated	
7:12:50 PM	Vice Chairman Cicero Note: Sacre, Candace	Witness is sworn.
7:12:54 PM	Vice Chairman Cicero Note: Sacre, Candace	Please be seated. Mr. Samford?
7:12:55 PM	Camera Lock Deactivated	
7:12:57 PM	Atty Samford Duke Kentucky - witness Swez Note: Sacre, Candace	Direct Examination. Mr. Swez, could you please state your name and title and business address for the record, please?
7:13:16 PM	Atty Samford Duke Kentucky - witness Swez Note: Sacre, Candace	And so did you cause any testimony to be filed in the record of this case?
7:13:24 PM	Atty Samford Duke Kentucky - witness Swez Note: Sacre, Candace	And what was his name?
7:13:27 PM	Atty Samford Duke Kentucky - witness Swez Note: Sacre, Candace	So, if I were to ask you the questions that Mr. Verderame was asked, would your answers be the same?
7:13:34 PM	Atty Samford Duke Kentucky - witness Swez Note: Sacre, Candace	Do you have any corrections, changes, additions to that testimony or Responses to Data Requests?
7:13:44 PM	Atty Samford Duke Kentucky - witness Swez Note: Sacre, Candace	That's a lot to follow at this hour, but I think I'm with you, so is it your desire and intent to incorporate that testimony and Data Request Responses into the record of this proceeding?
7:13:57 PM	Atty Samford Duke Kentucky Note: Sacre, Candace	Your Honor, tender the witness for cross examination.
7:13:59 PM	Vice Chairman Cicero Note: Sacre, Candace	Thank you very much. Mr. Boehm?
7:14:01 PM	Atty Boehm Kroger Note: Sacre, Candace	No questions, Your Honor.
7:14:02 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. McNeil?
7:14:03 PM	Asst Atty Gen McNeil Note: Sacre, Candace	Just a few, yes. Thanks.

7:14:06 PM	Asst Atty Gen McNeil - witness Swez Note: Sacre, Candace	Cross Examination. Good evening, Mr. Swez. So I'm looking at Mr. Verderame's direct testimony at page 10. Just let me know when you get there.
7:14:32 PM	Asst Atty Gen McNeil - witness Swez Note: Sacre, Candace	So, at line 15, he was asked, "Does Duke Energy Kentucky currently have sufficient capacity to meet its Kentucky customer load obligations?," and, you know, he answers, "Duke Energy Kentucky currently has sufficient capacity to meet its load obligations; however, short-term capacity purchases may be necessary to maintain sufficient reserves and meet its capacity obligations in PJM." Do you agree with that statement?
7:14:59 PM	Asst Atty Gen McNeil - witness Swez Note: Sacre, Candace	Do you have any idea how long these short-term purchases might be necessary?
7:15:38 PM	Asst Atty Gen McNeil - witness Swez Note: Sacre, Candace	And would you agree that, in the last few years, Duke Energy Kentucky's capacity position has been thin in it being able to meet it all the way; it's been pretty close to full on not being able to meet the obligation? Is that fair to say?
7:16:10 PM	Asst Atty Gen McNeil - witness Swez Note: Sacre, Candace	Following on that same page 10, the answer goes on to say that Duke Kentucky uses the profit-sharing mechanism, Rider PSM, to address the capacity shortfalls. Does that mean that that ten percent that goes back to the company, those funds are used directly to purchase capacity? What is - can you explain that?
7:17:00 PM	Asst Atty Gen McNeil - witness Swez Note: Sacre, Candace	So, now, we're going to look at Date Request Response to Staff DR-2-102. I'll give you a chance to -
7:17:17 PM	Asst Atty Gen McNeil - witness Swez Note: Sacre, Candace	Okay, and this was responded to by both Mr. Verderame and Dr. Morin. Hopefully, you'll be able to answer, even considering you weren't the one who sponsored this, but - so the question explains Duke Kentucky's current status is an FRR member of PJM, and it asks the company to provide further explanation as to how its generation mix affects its required ROE, and the response explains the FRR sort of process, but it - if you look at the very end of it, I'm looking at the last sentence to the first paragraph, it says, "All these present limitations to the company's ability to secure capacity in the wholesale market and does present risk." (Click on link for continued comment.)
7:18:04 PM	Session Note Entry Note: Sacre, Candace	This sort of paints a picture that it's still pretty risky. Would you agree with that?
7:19:02 PM	Asst Atty Gen McNeil - witness Swez Note: Sacre, Candace	Just the capacity position overall in your current resource mix.
7:20:09 PM	Asst Atty Gen McNeil - witness Swez Note: Sacre, Candace	So, going forward, the company needs to acquire more capacity. Is it confident it can procure that capacity at affordable and economic prices without having to build extra generation?
7:20:53 PM	Asst Atty Gen McNeil - witness Swez Note: Sacre, Candace	Is the picture complicated even further with the uncertainty over the FERC (inaudible) Order?
7:21:19 PM	Asst Atty Gen McNeil - witness Swez Note: Sacre, Candace	But it might affect your off-system sales going forward, the lower prices enacted at a certain level?

7:22:10 PM	Asst Atty Gen McNeil Note: Sacre, Candace	I don't have anything further.
7:22:12 PM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Howard?
7:22:13 PM	Atty Howard NKU Note: Sacre, Candace	Yes, please.
7:22:14 PM	Atty Howard NKU - witness Swez Note: Sacre, Candace	Cross Examination. This discussion that you just had, sir, with Assistant General McNeil regarding capacity, is that based on today's energy needs by your current customer classes or your current load?
7:22:40 PM	Atty Howard NKU - witness Swez Note: Sacre, Candace	Were you in the room a few minutes ago when Dr. Passty testified?
7:22:50 PM	Atty Howard NKU - witness Swez Note: Sacre, Candace	Did you hear the questions by Kroger's counsel, Counselor Boehm, with regard to the industrial load growth in 2021 and 2022?
7:23:06 PM	Atty Howard NKU - witness Swez Note: Sacre, Candace	Did you hear that the anticipated industrial load growth was a 30 percent increase?
7:23:18 PM	Atty Howard NKU - witness Swez Note: Sacre, Candace	And I assume, correct me if I'm wrong, that you would stand behind that number that was presented by that witness, correct?
7:23:52 PM	Atty Howard NKU - witness Swez Note: Sacre, Candace	Regardless of whether we consider the characterization of your capacity, the situation being long or razor thin, given what's going to happen in the future with the industrial load growth of 30 percent as forecast, how does that put you with regard to your capacity needs going forward? When that happens, when that load growth comes on, when that capacity a 30 percent increase in the industrial load materializes, how does that affect your capacity?
7:25:16 PM	Atty Howard NKU Note: Sacre, Candace	I think that's it, Mr. Vice Chairman. Thank you.
7:25:18 PM	Vice Chairman Cicero Note: Sacre, Candace	Thank you. Mr. Nguyen?
7:25:21 PM	Staff Atty Nguyen PSC - witness Swez Note: Sacre, Candace	Just one quick question.
7:25:23 PM	Asst Gen Counsel Nguyen PSC - witness Swez Note: Sacre, Candace	Cross Examination. Mr. Swez, you mentioned that Duke Kentucky is long but not that long in meeting its load requirements to PJM. Is it that that generation capacity is only one base load unit at East Bend? Is that a factor into the decision with respect to not only being an FR entity but also additional capacity needed later on in the future?
7:26:21 PM	Asst Gen Counsel Nguyen PSC - witness Swez Note: Sacre, Candace	No. It is. It puts a slightly different twist to it but with the same result, so the risk is based on the forced outage rate, so if you have six individual units at the same forced outage rate as the one unit, they're both at risk or the same risk in terms of an FRR plan and how Duke Kentucky manages that resource for its FRR obligation.
7:27:42 PM	Asst Gen Counsel Nguyen PSC - witness Swez Note: Sacre, Candace	Are you saying - is there a difference or is there not a difference in terms of risk that's evaluated by Duke Kentucky in performance of its FRR plan to have one unit versus six units that may have the same forced outage rate?

7:28:43 PM	Asst Gen Counsel Nguyen PSC - witness Swez Note: Sacre, Candace	I guess, taking out the adding additional capacity part of it, just looking at the pure risk part of it, is there a difference in adding just one unit, one 600-megawatt unit, or having six 100-megawatt units, both of which have the same forced outage rate?
7:29:21 PM	Asst Gen Counsel Nguyen PSC - witness Swez Note: Sacre, Candace	So the likelihood of having the same forced outage rates for six different units is not going to be that high?
7:29:31 PM	Asst Gen Counsel Nguyen PSC - witness Swez Note: Sacre, Candace	But, in the event there is, you view that as the same risk?
7:29:43 PM	Asst Gen Counsel Nguyen PSC - witness Swez Note: Sacre, Candace	So, in the alternative, if they have different forced outage rates from the one, then you're better hedging than if you were just to have that one unit?
7:30:12 PM	Asst Gen Counsel Nguyen PSC - witness Swez Note: Sacre, Candace	Well, right now, Duke Kentucky just has that one baseload unit with six CTs, peaking units, in your mind, how much of a risk does that pose to Duke Kentucky as an FR entity in terms of meeting its load obligation?
7:31:15 PM	Asst Gen Counsel Nguyen PSC Note: Sacre, Candace	Thank you. Those are all the questions I have.
7:31:19 PM	Vice Chairman Cicero Note: Sacre, Candace	Commissioner Mathews?
7:31:23 PM	Commissioner Mathews Note: Sacre, Candace	I don't have anything.
7:31:26 PM	Vice Chairman Cicero Note: Sacre, Candace	I don't have any questions. Is there any redirect?
7:31:28 PM	Atty Samford Duke Kentucky Note: Sacre, Candace	No, redirect, Your Honor.
7:31:30 PM	Vice Chairman Cicero Note: Sacre, Candace	Any other questions as a follow up?
7:31:31 PM	Asst Atty Gen McNeil Note: Sacre, Candace	No.
7:31:32 PM	Atty Howard NKU Note: Sacre, Candace	None. Thank you.
7:31:33 PM	Atty Boehm Kroger Note: Sacre, Candace	No.
7:31:34 PM	Vice Chairman Cicero Note: Sacre, Candace	May this witness be excused?
7:31:36 PM	Vice Chairman Cicero Note: Sacre, Candace	Okay. You may step down.
7:31:38 PM	Vice Chairman Cicero Note: Sacre, Candace	Okay. It's almost 25 till 8. I'll probably be pushing my luck if I go for another one, but we will reconvene at 8:30 tomorrow, and, if we get lucky, we might get done tomorrow. I don't know.
7:32:01 PM	Vice Chairman Cicero Note: Sacre, Candace	We're recessed until 8:30 tomorrow morning.
7:32:24 PM	Session Ended	



Exhibit List Report

2019-00271 19Feb2020

**Duke Energy Kentucky (Duke
Kentucky)**

Name:	Description:
Attorney General Exhibit 1	2018-00281 Atmos Energy Corporation Order entered 05/07/2019
Duke Kentucky Exhibit 2	Statement by Jerome H. Powell before Committee on Financial Services U.S. House of Representatives Feb 11, 2020
Kroger Exhibit 1	2019-00271 Responses to Kroger's First Set of Data Requests Received 10/14/2019

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF ATMOS)	CASE NO.
ENERGY CORPORATION FOR AN)	2018-00281
ADJUSTMENT OF RATES)	

ORDER

Atmos Energy Corporation (Atmos) is a natural gas distribution company that operates in eight states and serves about 3 million customers.¹ Atmos's Kentucky/Mid-States division is one of six operating divisions that provide natural gas service in Kentucky, Tennessee, and Virginia.² Atmos serves approximately 176,800 customers in central and western Kentucky.³ The most recent adjustment of Atmos's base rates was in May 2018 in Case No. 2017-00349.⁴

BACKGROUND

On August 21, 2018, Atmos submitted a notice of intent to file an application for a general rate case based upon a forecasted test period. On September 28, 2018, Atmos submitted its application based on a forecasted test period ending March 31, 2020,

¹ Direct Testimony of Mark A. Martin (Martin Testimony) at 4.

² *Id.*

³ Application at 3.

⁴ Case No. 2017-00349, *Electronic Application of Atmos Energy Corporation for an Adjustment of Rates and Tariff Modifications* (Ky. PSC May 3, 2018).

seeking an increase in revenues of \$14,455,538,⁵ or 15.8 percent, with a proposed effective date of October 28, 2018.⁶ The average monthly bill for consumers would increase approximately \$4.41, or 8.6 percent, for residential customers; \$14.45, or 6.6 percent for commercial and public authority consumers; and \$909.82, or 15.8 percent, for industrial and transportation customers.⁷ Atmos subsequently revised its proposed revenue increase to \$14,374,606.⁸ Atmos submitted a depreciation study in support of its application and requested that its proposed depreciation rates be approved.⁹

Atmos states that the reasons for the requested rate increase are declining return on equity (ROE) and inadequate revenue to continue to provide the quality of service required by the Commission and demanded by its customers.¹⁰ Atmos further asserts that the revised rates are necessary to allow Atmos the opportunity to recover its reasonable operating costs, earn a reasonable return on its investment, provide sufficient revenue to maintain its facilities, and attract additional capital.¹¹

In addition to seeking a base rate increase, Atmos is requesting to cancel its current Pipeline Replacement Program (PRP) and delete the corresponding Rider tariff

⁵ See Atmos's response to Commission Staff's Second Request for Information (Staff's Second Request), Item 64. Atmos revised its requested increase to \$14,509,652 based upon adjustments for errors acknowledged in response to both the Commission Staff's and the Attorney General's discovery.

⁶ Application at 3.

⁷ Application at 4.

⁸ Rebuttal Testimony of Greg K. Waller (Waller Rebuttal Testimony) at 2.

⁹ Direct Testimony of Dane A. Watson (Watson Testimony) at 3 and 17.

¹⁰ Application at 4.

¹¹ *Id.*

in order to align its “commitment to replace bare steel pipe with the provisions” of the final Order in Case No. 2017-00349.¹² Atmos also is requesting minor text changes to its demand-side management (DSM) tariff relating to the timing of the adjustment for the distribution charge for residential and commercial G-1 sales,¹³ and seeking an increase in various customer charges.¹⁴ Lastly, Atmos is requesting to update the time period used to weather normalize revenues to the 20-year period ending June 2018, or in other words, the period of July 1998 through June 2018.¹⁵

A review of the application revealed that it did not meet the minimum filing requirements of 807 KAR 5:001, Section 16(7)(d); a notice of filing deficiencies was issued on October 5, 2018. Atmos filed information on October 9, 2018, to cure the noted filing deficiencies. A notice that Atmos’s deficiencies had been cured was issued October 12, 2018, stating that the application met the minimum filing requirements as of October 9, 2018. Based on an October 9, 2018 filing date, the earliest possible date Atmos’s proposed rates could become effective was November 8, 2018.

Pursuant to KRS 278.190(2), the Commission issued an Order on October 26, 2018, suspending the effective date of Atmos’s proposed rates for six months, up to and including May 7, 2019. Further, the October 26, 2018 Order established a procedural schedule for the processing of this matter, providing for: a deadline to file intervention requests; two rounds of discovery upon Atmos’s application; a deadline for the filing of

¹² Application at 5.

¹³ *Id.*, Martin Testimony at 12.

¹⁴ Martin Testimony at 12–13.

¹⁵ *Id.* at 15.

intervenor testimony; one round of discovery upon any intervenor testimony; an opportunity for Atmos to file rebuttal testimony; a public hearing; and an opportunity to file post-hearing briefs. The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention (Attorney General) is the only intervenor in the pending case.

The Commission held a formal hearing on the proposed rate adjustment for the purpose of cross-examination of witnesses on April 2, 2019, and April 3, 2019, at its offices in Frankfort, Kentucky. Pursuant to the Commission's April 3, 2019 Order, both Atmos and the Attorney General filed responses to post-hearing requests for information as well as post-hearing briefs. The case now stands submitted for a decision.

TEST PERIOD

Atmos proposed the 12 months ending March 31, 2020, as its forecasted test period to determine the reasonableness of its proposed rates.¹⁶ The Attorney General did not object to the proposed test period or suggest an alternative test period; it did, however, criticize Atmos's development of certain items contained in the proposed test period, as discussed herein. The Commission finds Atmos's forecasted test period to be reasonable and consistent with the provisions of KRS 278.192 and Kentucky Administrative Regulation (KAR) 5:001, Section 16(6), (7), and (8). Therefore, we will accept the forecasted test period proposed by Atmos for use in this proceeding.

¹⁶ Application at 4.

VALUATION

Rate Base

Atmos proposed a net investment rate base for its forecasted test period of \$496,111,427, based on the 13-month average for that period.¹⁷ In response to errors identified in discovery, Atmos revised this amount to \$495,967,913.¹⁸ In its rebuttal testimony, Atmos further revised its proposed rate base to \$496,005,827 to reflect adjustments caused by updates to its capital structure.¹⁹

The Attorney General proposed to reduce Atmos's rate base to \$330,448,117.²⁰ The Attorney General proposed to: (1) remove PRP plant additions after September 30, 2018;²¹ (2) reduce non-PRP plant additions to reflect a historic 3-year average;²² (3) adjust accumulated depreciation and accumulated deferred income taxes (ADIT) to reflect the Average Life Group (ALG) procedure instead of the Equal Life Group (ELG) procedure; (4) remove Construction Work in Progress (CWIP),²³ and; (5) reduce cash working capital to reflect the Attorney General's adjustments to Atmos's as-filed lead/lag

¹⁷ Application, Volume 7, FR 16(8)(b).

¹⁸ Atmos's response to Staff's Second Request, Item 64, Attachment 1, Schedule A.

¹⁹ Waller Rebuttal Testimony, Exhibit GKW-R-1, Schedule A-1.

²⁰ Kollen Testimony, Attachment Atmos_Rev_Req_-_AG_Recommendation.xlsx, Tab Rate Base; See also Attorney General's response to Commission Staff's Post-Hearing Request for Information (Staff's Post-Hearing Request), Item 6, Attachment. The Attorney General revised its recommended rate base to \$396,074,915 based upon adjustments for errors acknowledged in response to discovery.

²¹ Kollen Testimony at 14–20.

²² *Id.* at 20–26.

²³ *Id.* at 27–35.

study.²⁴ The Attorney General subsequently proposed a further reduction of \$2,112,592 to remove previously capitalized Allowance for Funds Used During Construction (AFUDC).²⁵

As discussed later in this Order, the Commission has determined that Atmos's net investment rate base is \$424,928,655, as shown below. Cash working capital has been reduced to reflect the lead/lag study Atmos filed with its application.

	Atmos Proposed	Adjustment	Adjusted
Utility Plant in Service	\$ 724,669,367	\$ (29,362,001)	\$ 695,307,366
Construction Work in Progress	39,130,198	(39,130,198)	-
Total Utility Plant	\$ 763,799,565	\$ (68,492,199)	\$ 695,307,366
LESS:			0
Accumulated Depreciation and Amortization	\$ 194,453,459	\$ 1,354,650	\$ 195,808,109
Net Utility Plant	\$ 569,346,106	\$ (69,846,849)	\$ 499,499,257
ADD:			
Cash Working Capital Allowance	\$ 2,692,759	\$ (987,582)	\$ 1,705,177
Inventory and Prepayments	9,023,857	-	9,023,857
Subtotal	\$ 11,716,616	\$ (987,582)	\$ 10,729,034
			\$ -
DEDUCT:			
Customer Advances for Construction	\$ 747,234	\$ -	\$ 747,234
Regulatory Assets / Liabilities	33,020,670	79,883	33,100,553
Deferred Inc. Taxes and Investment Tax Credits	50,663,356	788,492	51,451,848
Subtotal	\$ 84,431,261	\$ 868,375	\$ 85,299,636
NET INVESTMENT RATE BASE	\$ 496,631,462	\$ (71,702,807)	\$ 424,928,655

Capitalization

Atmos conducts utility operations in eight states through unincorporated operating divisions, which are not separate legal entities and comprise the Atmos Energy Corporation. All debt or equity funding of each division is issued by Atmos as a whole.²⁶ Atmos states that this consolidated capital structure is appropriate for ratemaking in

²⁴ *Id.* at 36–39.

²⁵ Attorney General's Brief, Exhibit 1.

²⁶ Direct Testimony of Joe T. Christian (Christian Testimony) at 6.

Kentucky because Atmos Energy Corporation provides the debt and equity capital that supports the assets serving Kentucky customers.²⁷ Atmos proposes to update its total capitalization for the forecasted test period to \$9,211,086, to reflect financing activities through March 2019.²⁸ The Attorney General recommended adjustments to the proposed capitalization amount as discussed below. The Commission accepts Atmos's proposed capitalization amount.

REVENUE REQUIREMENT ADJUSTMENTS

Atmos developed an operating statement for its forecasted test period based on its budgets for the 2019 fiscal year. As required by 807 KAR 5:001, Section 16(6)(a), the financial data for the forecasted test period was presented by Atmos in the form of pro forma adjustments to its base period – the 12 months ending December 31, 2018.²⁹ Based on the assumptions built into its budgets, Atmos calculated its test year revenues and operating and maintenance (O&M) expenses to be \$169,717,866 and \$142,015,942, respectively.³⁰ Based on these adjusted revenues and O&M expenses, Atmos's test period operating income was \$27,701,923, which based on its proposed rate base, results in a 5.58 percent overall rate of return.³¹ Based on a proposed ROE of 10.40 percent,

²⁷ *Id.*

²⁸ Rebuttal Testimony of Joe T. Christian (Christian Rebuttal Testimony) at 11.

²⁹ Application, Volume 7, Schedules D.1 and D.2.

³⁰ Application, Volume 7, Schedule C.1; Through rebuttal testimony, Atmos revised its O&M expense projections to \$142,188,086; See Waller Rebuttal Testimony, Exhibit GKW-R-1, Schedule C.1.

³¹ Application, Volume 7, Schedule C.1. Atmos's revised O&M expense result in a test period net income of \$27,529,780 and 5.55 percent overall rate of return. See Waller Rebuttal Testimony, Exhibit GKW-R-1, Schedule C.1.

Atmos determined that it required a revenue increase of \$14,455,544, which would produce an overall return on rate base of 7.95 percent.³²

The Attorney General, based on a number of proposed adjustments to Atmos's test period results and a 9.70 percent ROE, recommended a decrease in revenues of \$7,969,875.³³ Based upon corrections identified in discovery responses and additional recommendations made in his post-hearing brief, including a 9.45 percent ROE, the Attorney General updated his proposed revenue reduction for Atmos to \$9,731,022.³⁴

The Commission will accept components of Atmos's test period and certain proposed adjustments, but will also accept some of the Attorney General's proposed adjustments. A discussion of the individual adjustments accepted, modified, or rejected by the Commission, and the impact of those adjustments on Atmos's revenue requirement follows.

Pipeline Replacement Program

In 2010, the Commission initially approved Atmos's PRP to be a 15-year program to replace 250 miles of bare steel pipe and services at an estimated total cost of \$124 million.³⁵ Atmos subsequently discovered that there were an additional 100 miles of bare

³² Application, Volume 7, Schedule A.1. Based on Atmos's revised O&M expense and rate base, Atmos determined that it required a revenue increase of \$15,838,372 to produce a 7.93 percent overall rate of return. See Waller Rebuttal Testimony, Exhibit GKW-R-1, Schedule A.

³³ Kollen Testimony at 4.

³⁴ See Attorney General's Brief at 5; Attorney General's response to Staff's Post-Hearing Request, Item 6. Because the Attorney General did not quantify the adjustment, this does not include the proposed disallowance of Mr. Mark Martin's salary.

³⁵ Case No. 2009-00354, *Application of Atmos Energy Corporation for an Adjustment of Rates* (Ky. PSC May 28, 2010); See also Case No. 2017-00349, *Atmos* (Ky. PSC May 3, 2019), Order at 37.

steel pipe to be replaced, and further added the replacement of the Shelbyville Line, at a cost of \$21.7 million, and the Lake City Line, at a cost of \$5.7 million, both due to safety and reliability concerns.³⁶ In reviewing Atmos's 2017 annual filing to update its PRP rates,³⁷ the Commission found in its final Order that the significant increase in the cost of Atmos's PRP Rider since it was approved in Case No. 2009-00354³⁸ warranted a more detailed review in Case No. 2017-00349.³⁹

In Case No. 2017-00349, Atmos estimated the cost of the pipeline replacement program to be \$438 million for 350 miles of bare steel pipes and services and the two additional projects.⁴⁰ Thus, the cost per mile for replacing the bare steel pipe and services more than doubled, from just under \$500,000 per mile to over \$1.17 million per mile.⁴¹ In the final Order of Case No. 2017-00349, the Commission stated that the eligible bare steel pipeline replacements, for which Atmos's PRP was approved, could not be reasonably made and funded by ratepayers at the levels estimated by Atmos.⁴² The Commission further noted that Atmos's annual recovery for the PRP should be limited, and that it could be limited without risk to public safety.⁴³ The Commission found that the

³⁶ Case No. 2017-00349, *Atmos*, (Ky. PSC May 28, 2010), Order at 37.

³⁷ Case No. 2017-00308, *Electronic Application of Atmos Energy Corporation for PRP Rider Rates* (Ky. PSC Oct. 27, 2017).

³⁸ Case No. 2009-00354, *Atmos* (Ky. PSC May 28, 2010).

³⁹ Case No. 2017-00349, *Atmos* (Ky. PSC May 3, 2018), Order at 40.

⁴⁰ *Id.* at 37.

⁴¹ *Id.* at 37–38.

⁴² *Id.*

⁴³ *Id.*

time frame of Atmos's PRP should be extended and the annual ratepayer-funded PRP investment should be limited to \$28 million, barring identification of a PRP-eligible pipeline-related hazard that could not have been reasonably foreseen.⁴⁴ The Commission also asserted that "\$28 million in annual investment should cause the remaining PRP for bare steel replacement to be complete in 8 - 9 years beginning in 2019 with estimated completion in 2027, adding two years to the originally approved 15-year timeframe."⁴⁵ The Commission found that the annual investment amount of \$28 million was reasonable based on Atmos's average actual annual PRP investment from 2012 through 2017.⁴⁶

The Commission also questioned the reliability of the estimates and the reasonableness of the PRP as it had been structured due to Atmos basing its PRP investment projections on a 12 percent annual escalation instead of specific projects.⁴⁷ Thus, the Commission ordered that Atmos's recovery of the PRP investment should be based on actual spending, subject to the \$28 million cap, in a historic 12-month period, and that budget estimates for funding a future PRP period would no longer be accepted as the basis for calculating the PRP Rider rate.⁴⁸

⁴⁴ *Id.* at 41.

⁴⁵ *Id.*

⁴⁶ *Id.*

⁴⁷ *Id.* at 41–42.

⁴⁸ *Id.* at 42.

In the pending application, Atmos requests to cancel the PRP and delete the associated PRP tariff “in light of the Commission’s Order in Case No. 2017-00349.”⁴⁹ Atmos states that it is agreeable and committed to achieving the PRP investment target of \$28 million per year for the bare steel replacement and to the modified completion timeline.⁵⁰ However, Atmos contends that the modification of the PRP to historical, lagged recovery of investment as required by the final Order in Case No. 2017-00349, as opposed to the prospective treatment that was previously afforded to Atmos, is financially detrimental.⁵¹ Atmos argues that for utilities such as it, which employ frequent comprehensive forward-looking rate cases pursuant to KRS 278.192, integrating a historical test-year PRP rider creates significant mathematical and accounting challenges.⁵² Atmos insists that timely recovery of costs associated with high levels of capital investment is financially essential, and that recovery lagged for historic test year filings would strand unavoidable costs.⁵³ Atmos further states that the historical recovery for the PRP investment results in a regulatory construct that systematically prevents earning its authorized return on equity (ROE).⁵⁴

Finally, Atmos maintains that KRS 278.509, which is the statute that governs the recovery of costs for investment in natural gas pipeline replacement programs, is a

⁴⁹ Martin Testimony at 14; Application at 5.

⁵⁰ Martin Testimony at 14–15.

⁵¹ *Id.*

⁵² Atmos’s Post-Hearing Brief (Atmos’s Brief) at 22.

⁵³ *Id.*

⁵⁴ Direct Testimony of Gregory K. Waller (Waller Testimony) at 11.

permissive statute, and as such, Atmos is not required to have a PRP or a PRP Rider.⁵⁵ Thus, Atmos proposes to withdraw the PRP, delete the associated PRP Rider, and to avail itself of KRS 278.192 for all of its pipeline replacement recovery, thereby transferring the ratemaking for the replacement of facilities that would have qualified under the PRP to an annual forward-looking rate case.⁵⁶

The Attorney General argues that Atmos's request to cancel the PRP and delete the associated PRP tariff is an attempt to circumvent the customer safeguards that the Commission imposed upon Atmos's PRP in Case No. 2017-00349.⁵⁷ The Attorney General avers that Atmos's pending proposal would significantly change the timing of cost recovery by allowing Atmos to recover in rate base both the actual PRP costs incurred through the historic period ending September 30, 2018, and also the forecasted PRP costs from October 1, 2018, through March 31, 2020.⁵⁸ Rather than limiting the total cost recovery for the PRP to \$28 million, the Attorney General asserts that Atmos is now seeking to include an additional \$42 million in PRP costs in the base revenue requirement.⁵⁹ Based upon the final Order from Case No. 2017-00349, the Attorney General states that the PRP costs incurred from October 1, 2018, through September 30,

⁵⁵ Rebuttal Testimony of Mark A. Martin (Martin Rebuttal Testimony) at 4.

⁵⁶ Atmos's Brief at 22; Martin Testimony at 6 and 14.

⁵⁷ Attorney General's Post-Hearing Brief (Attorney General's Brief) at 15; Direct Testimony of Lane Kollen (Kollen Testimony) at 16.

⁵⁸ Attorney General's Brief at 16; Kollen Testimony at 17.

⁵⁹ Attorney General's Brief at 17–18; Kollen Testimony at 18. (Mr. Kollen breaks down the \$42 million PRP costs from October 1, 2018 through March 31, 2020 as follows: \$28 million in fiscal year 2019 from October 1, 2018 through September 30, 2019, plus \$14 million in fiscal year 2020 from October 1, 2018 through March 31, 2020.)

2019, would not have been eligible for recovery through the PRP Rider until March 1, 2020.⁶⁰ Likewise, the costs incurred from October 1, 2019, through March 31, 2020, would not have been eligible for recovery through the PRP Rider until March 1, 2021.”⁶¹

The Attorney General recommends that Atmos’s request to terminate the PRP be rejected, and that Atmos be directed to continue the PRP and recover PRP associated investment as prescribed in the final Order of Case No. 2017-00349.⁶² In rebuttal to the Attorney General’s arguments concerning the historical, lagged recovery, Atmos states that the Attorney General’s position to require it to utilize the PRP to replace bare steel pipeline through 2027 on a historic, lagged basis would be confiscatory.⁶³

The Commission’s history of supporting and encouraging natural gas pipeline replacement through approval of reasonable PRP programs, tariffs, and riders is well known and speaks for itself.⁶⁴ The Commission’s previous steps to limit Atmos’s PRP recovery were in response to the record developed in Case No. 2017-00349, regarding an unconscionable level of projected PRP investment by Atmos. The Commission has never before withdrawn approval of a forward-looking PRP program in favor of historical recovery based on actual spending for any other natural gas utility, and the Commission urges Atmos to take note of this fact.

⁶⁰ Attorney General’s Brief at 16.

⁶¹ *Id.*

⁶² *Id.*, Kollen Testimony at 19–20.

⁶³ Martin Rebuttal Testimony at 6.

⁶⁴ See, e.g., the Commission’s establishment of a PRP Rider for Duke Energy Kentucky, Inc. in 2002, prior to the enactment of KRS 278.509.

The Commission agrees in part with the Attorney General in that continued use of the PRP is the most appropriate method for accelerating the replacement of aging and unsafe bare steel pipelines by Atmos. Therefore, we will require Atmos to continue utilizing the PRP to accelerate the replacement of bare steel pipelines in its system. The Commission has consistently found that the public interest is served by replacing potentially unsafe, aged gas pipelines through the adoption of pipeline replacement programs that have been approved as being fair, just, and reasonable. To the extent that the pipeline eligible for replacement poses a safety risk to the utility's customers, service areas, and employees, the Commission reiterates that it is in favor of accelerated replacement. The Commission believes that pipeline replacement programs improve public safety and reliability of service for customers. These policy objectives were the Commission's motivation to initially allow Atmos to implement the PRP in Case No. 2009-00354, and the reason that the Commission still believes that the accelerated replacement of bare steel pipelines in Atmos's system should be performed under the provisions of its existing PRP.

Through the PRP process, the Commission is able to separately review and scrutinize each project and expenditure annually, with the opportunity for the Attorney General, and potentially others, to intervene in the PRP proceedings. The Commission finds that the already established separate review for the accelerated replacement of bare steel pipelines in Atmos's system to be a more streamlined and efficient process than Atmos's proposal to include the PRP projects in an annual base rate case. During a base rate case, a multitude of issues are examined in detail by the parties and the Commission.

If PRP projects are also included in the base rate case then the Commission and the intervenors may not have adequate time to review and analyze the proposed projects.⁶⁵

However, the Commission also agrees in part with Atmos, that based upon the magnitude of the PRP investment, it is reasonable for it to continue to be given prospective treatment in order to avoid the regulatory lag inherent in the historical treatment adopted in Case No. 2017-00349. Atmos states in the pending application that it is “agreeable and committed to achieving the investment target” for the PRP as designated by Case No. 2017-00349,⁶⁶ and attests that Atmos is committed to completing the remaining 188 miles of bare steel pipeline replacement by 2027.⁶⁷ It appears that the only modification to the PRP that Atmos finds impracticable is the historical, lagged recovery. The Commission is persuaded by Atmos’s argument that integrating the historical test-year PRP rider can create mathematical and accounting challenges for Atmos because it has consistently utilized forward-looking rate cases pursuant to KRS 278.192.

No customer safeguards will be eroded by allowing Atmos to utilize prospective treatment with regard to the PRP filings because the annual ratepayer-funded PRP investment for bare steel pipeline replacement will still be limited to \$28 million and the

⁶⁵ In Atmos's Reply Brief in Case No. 2017-00349, Atmos asserts “...PRP expenditures are susceptible to more scrutiny in a stand-alone annual PRP filing[s] [sic] than in a regular rate case where literally thousands of other pieces of financial information are presented for review by the Commission.” Atmos further stated that placing the PRP projects in base rate cases would “necessarily limit the time and depth of analysis currently afforded to the Commission.”

⁶⁶ Martin Testimony at 14–15.

⁶⁷ Atmos's response to Commission Staff's First Post-Hearing Request for Information (Staff's First Post-Hearing Request), Item 7.

program will be completed by 2027, barring the identification of a PRP-eligible pipeline-related hazard that could not have been reasonably foreseen. The Commission finds no merit in Atmos's argument that because the statutory provision for creating a PRP is voluntary, the Commission lacks the authority to deny a request to terminate an existing PRP. Once a rate such as the PRP is approved by the Commission as being fair, just, and reasonable, it can be discontinued only upon a subsequent similar finding by the Commission. Here, we find that discontinuing the PRP would not be fair, just, or reasonable. Furthermore, pursuant to KRS 278.509, the Commission will continue to only allow Atmos recovery of PRP investment costs that have been deemed fair, just, and reasonable.

The Commission's decision to continue Atmos's PRP utilizing forward-looking estimates of capital expenditures, as used since its adoption in 2010, does not include approval of pipeline replacements beyond what it is currently authorized, as the pace of replacements and the magnitude of customer surcharges remain a concern. The amounts included in the forecasted test-period for PRP-eligible projects for the period October 1, 2019, through March 31, 2020, were based on Atmos's fiscal year 2019 budget. The Commission will reinstate Atmos's PRP Rider on a forecasted basis. Therefore, the Commission finds that the estimated amounts of PRP-eligible capital additions included after September 30, 2019, should be removed from base rates and recovered through the PRP Rider. This reduces Atmos's rate base by \$4,998,962; depreciation expense by \$90,707; and ad valorem taxes by \$34,190, which results in revenue requirement reductions of \$502,528; \$91,346; and \$34,431 respectively, for a total revenue requirement reduction of \$628,305.

Depreciation Expense

Atmos proposes to change its depreciation rates at the beginning of the test year to reflect the results of a depreciation study submitted with its application.⁶⁸ Atmos proposes the continued use of the ELG procedure in developing its depreciation rates.⁶⁹ The Attorney General recommends the Commission adopt the ALG procedure in developing Atmos's depreciation rates.⁷⁰ The Attorney General contends that the ALG methodology is the predominant procedure used by other electric and gas utilities, including all other investor-owned electric and gas utilities in the Commonwealth of Kentucky, for developing depreciation rates.⁷¹ The Attorney General explains that under the ELG methodology, the capital recovery periods are accelerated and shortened and, thus, the depreciation rates are greater than if the ALG procedure were used.⁷² The Attorney General insists that the ALG procedure is as accurate as the ELG procedure, but the ALG procedure smooths the data so that the depreciation rates for the group of assets tend to remain constant, all else being equal over the service life of the group.⁷³ Use of the ALG procedure will decrease Atmos's depreciation expense by \$7,352,738, for a revenue requirement reduction of \$7,404,568.

⁶⁸ Direct Testimony of Dane A. Watson (Watson Testimony) at 3 and 17.

⁶⁹ *Id.* at 6–7.

⁷⁰ Kollen Testimony at 7–14.

⁷¹ *Id.* at 7.

⁷² *Id.* at 11.

⁷³ *Id.* at 13–14.

This Commission has previously found that the ELG procedure does not accurately match revenues and expenses, is front-loaded, and should not be allowed for ratemaking purposes.⁷⁴ The Commission finds that Atmos's proposed ELG procedure does not produce fair, just and reasonable rates, and that Atmos's depreciation rates should reflect the ALG procedure. While a reduction of the full amount is warranted, the Commission, in light of Atmos's historic use of the ELG procedure, will only reduce Atmos's revenue requirement by half the Attorney General's proposed amount, and will require Atmos to establish a regulatory liability without carrying charges for the remainder, the amortization of which will be addressed in Atmos's next base rate case. This gradual approach will ensure that Atmos's customers receive the full benefit of the reasonable deprecation methodology, while limiting the impact of the change on Atmos. This adjustment results in an expense reduction of \$3,676,784, for a reduction in Atmos's revenue requirement of \$3,702,701, and also increases Atmos's rate base through the reduction in accumulated depreciation and ADIT of \$1,805,638 and \$450,507, respectively, for an increase in Atmos's revenue requirement of \$226,802. The net impact to Atmos's revenue requirement is a decrease of \$3,475,899.

Other Capital Expenditure Adjustments

In the pending case, Atmos does not argue that the Commission's limitation on its annual capital spending for the replacement of bare steel pipes of \$28 million is unreasonable. However, although Atmos accepts this limitation on the rate at which it

⁷⁴ 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), Order at 26–27.

may replace bare steel pipes, it made no change in its total projected capital spend for its fiscal years 2019 and 2020.⁷⁵ Rather, Atmos simply shifted the capital it expected to spend on bare steel replacement to other capital projects, referred to alternatively by the parties as non-PRP and non-bare steel projects, such that there was no change in Atmos's budget for fiscal years 2019 and 2020.⁷⁶ As a result of that shift, Atmos's spending on non-PRP capital projects went from \$33.9 million in 2018 to \$58.7 million in 2019 and \$68.7 million in 2020.⁷⁷ Moreover, that increase was in addition to an increase from \$18.6 million in 2015 to \$34.2 million in 2016.⁷⁸

Atmos did not obtain a Certificate of Public Convenience and Necessity (CPCN) for any of the projects it claims account for the spending identified above.⁷⁹ Rather, Atmos asserted its belief that none of the projects required a CPCN, because they were in the ordinary course of business. Atmos based that argument, in part, on its contention that none of the projects materially impacted its financial condition, because they did not exceed two percent of its plant in service.⁸⁰ However, a number of projects identified by

⁷⁵ Atmos's Response to Commission Staff's Fourth Request for Information (Staff's Fourth Request), Item 4(a).

⁷⁶ See Atmos's Response to Staff's Fourth Request at Item 4(b) (Atmos acknowledges that the non-PRP spending, also discussed as the non-bare steel spending, increased by approximately the same amount that the PRP spending decreased due to the limitation).

⁷⁷ Atmos's Response to Staff's Third Request, Item 22(a).

⁷⁸ *Id.*

⁷⁹ April 2, 2019, Hearing Transcript at 2:07-2:08 (Atmos's witness indicated that he was not aware of Atmos requesting any CPCNs).

⁸⁰ Atmos's Response to Staff's Third Request, Item 27.

Atmos did fall outside of Atmos's own standard.⁸¹ More importantly, a utility is prohibited from engaging in capital spending for the construction of facilities that would result in wasteful duplication, regardless of whether a CPCN is required.⁸²

Atmos primarily argues that its proposed non-PRP capital expenditures, which it referred to as non-bare steel capital expenditures, were necessary to maintain and accelerate the pace of the replacement of aging facilities in its Kentucky distribution system and to address other non-bare-steel materials.⁸³ Specifically, although Atmos acknowledged its system is currently safe and reliable, Atmos argues that the accelerated replacement of certain non-bare-steel facilities — including Aldyl-A pipes, other early polyethylene pipes, low-pressure systems, and unlocatable pipes — will increase the safety and reliability of its system.⁸⁴ Atmos argues that “a critical aspect to ensuring safety and reliability of the Company’s system in Kentucky is dependent on the Company continuing its targeted investment for non-bare steel [non-PRP] projects.”⁸⁵ Thus, Atmos

⁸¹ See April 2, 2019 Hearing Transcript at 2:07–2:08 (Atmos’s witness indicated that Atmos did not do many projects that came close to the \$10 million level, i.e. the two percent threshold identified by Atmos); Atmos’s Response to Staff’s Second Post-Hearing Request, Item 1, Attachment 1 (identifying a number of projects in fiscal 2019 alone that exceeded \$10 million).

⁸² KRS 278.020(1), in relevant part, prohibits a utility from constructing any plant, equipment, property, or facility without the Commission’s approval, except for “ordinary extensions of existing systems in the usual course of business. The Commission will not grant a CPCN unless the utility establishes that the facility the utility intends to construct will not result in “wasteful duplication.” *Kentucky Utilities Co. v Pub. Serv. Comm’n*, 252 S.W.2d 885 (Ky. 1952). Further, pursuant to 807 KAR 5:001, Section 15(3) a facility is not considered to be in the ordinary course of business if it results in wasteful duplication. Thus, regardless of whether a CPCN is required, a utilities construction of any plant, equipment, property, or facility may not result in wasteful duplication. See also Atmos’s Brief at 53 (“The issue is whether based on the evidence in this record, Atmos Energy has demonstrated that its replacement proposal, its budgeting reliability and its efforts to maintain a safe pipeline system in Kentucky is reasonable.”)

⁸³ Atmos’s Brief at 25.

⁸⁴ Atmos’s Brief at 25–31.

⁸⁵ Atmos’s Brief at 32.

contends that the Commission should permit Atmos's projected non-PRP capital spending at the levels proposed by Atmos.

However, the Commission is unable to find from the evidence that Atmos's proposed level of spending on non-PRP projects is reasonable or necessary. First, the increase in spending on non-PRP capital projects in 2019 and 2020 was driven primarily by the Commission's limitations on the bare steel spending through the PRP.⁸⁶ Atmos indicates that, absent the \$28 million limitation on bare steel investment, spending on non-PRP projects would have been limited to the pre-2019 levels.⁸⁷ Atmos's witness also reluctantly acknowledged that Atmos would have been required to delay some of the proposed non-PRP projects if the capital that was allocated to those projects had been used to fund bare steel projects.⁸⁸ Thus, the Commission finds Atmos would not have proposed to increase its capital spending above pre-2019 levels for the non-PRP projects if Atmos's spending on bare steel had not been limited. The Commission further finds that there is no reasonable basis to assume that Atmos's need to spend on non-PRP projects has increased simply because its spending on PRP projects has been limited to \$28 million. The willingness of Atmos to fund capital projects on an accelerated basis

⁸⁶ Kollen Testimony at 23 ("There is no question that Atmos is intentionally and aggressively driving up its annual capital expenditures year after year. Atmos has met the Commission's attempt to limit the annual PRP investment to \$28 million with staggering increases in annual non-PRP investment. The Atmos forecast total direct investment is unaffected by the Commission's attempt to reign in its PRP investment.").

⁸⁷ See Atmos Response to Staff's Fourth Request, Item 4 (Atmos acknowledges that the non-PRP spending, also discussed as the non-bare steel spending, increased by approximately the same amount that the PRP spending decreased due to the limitation); April 2, 2019 Hearing Transcript at 1:52:00 – 1:55:30.

⁸⁸ April 2, 2019 Hearing Transcript at 1:52:00 – 1:55:30; See also Case No. 2017-00349, *Atmos* (Ky. PSC May 3, 2018); Atmos's Response to Commission Staff's Third Post Hearing Request for Information, Item 3 ("The Company currently has identified at-risk pipe such as early generation and unlocatable plastic which it anticipates proposing for replacement under the PRP starting in 2023.").

does not make those investments necessary and does not obligate the Commission to allow recovery of accelerated investments in the absence of a showing of need by Atmos.

Moreover, although Atmos claims it presented a detailed record of the prudence of its projects,⁸⁹ Atmos's proposed level of spending is not justified by the projects it presents in support of that spending. Atmos's proposed capital spending in the forecasted test year is only supported by actual projects in the first six months of the test year.⁹⁰ In the last six months of the forecasted test year, Atmos simply carries forward its proposed capital spending for the same month of the previous year.⁹¹ It is unlikely that amounts spent on specific projects in a given month would be the same as amounts in the same month of the previous year. Thus, the Commission questions the accuracy of those projections.

More importantly, Atmos failed to demonstrate that the accelerated replacement of certain facilities it contends present safety or reliability issues justify its accelerated level of spending. For instance, Atmos refers to Pipeline and Hazardous Materials Safety Administration (PHMSA) advisories to support an accelerated level of replacement of Aldyl-A pipes and other vintage polyethylene pipes, but the PHMSA notice placed in the record suggested monitoring those pipes and does not mandate or recommend

⁸⁹ Atmos's Brief at 32.

⁹⁰ See Atmos's Response to Staff's Third Request at Item 27, Attachment 1 (in which Atmos presented the projects that it claims support its proposed capital spending); see also April 2, 2019 Video at 1:59:00-2:03 (where Mr. Smith indicated that he was not aware of any other document in the record in which Atmos identified capital projects in support of its proposed spending).

⁹¹ See Atmos's Response to Staff's Third Request, Item 27, Attachment 1 (in which Atmos presented the projects that it claims support its proposed capital spending); Atmos's response to Staff's Second Request, Item 64, Attachment 2, KY_Plant_Data-2018_case.xlsx, Tab Capital Spending.

immediate replacement.⁹² Moreover, the PHMSA notice refers to pre-1973 Aldyl-A as presenting an issue,⁹³ but Atmos argues for the replacement of all Aldyl-A in its system.⁹⁴ Similarly, Atmos justified its spending on farm taps based on PHMSA rules, but PHMSA has indicated an intent to stay enforcement of those rules.⁹⁵ Atmos's witness also acknowledged that pipe Atmos identified as presenting safety or reliability issues either had been replaced in many of the densely populated areas where it would present a greater risk or was located outside those areas.⁹⁶

The Commission affirmatively supports allowing the accelerated replacement of facilities that present safety or reliability issues. As Atmos pointed out, the Commission recognized concerns about Aldyl-A in Case No. 2018-00086.⁹⁷ However, in that case, Delta Natural Gas Company, Inc. acknowledged that all Aldyl-A did not need to be replaced immediately, but rather indicated that it had identified specific sections of Aldyl-A that should be immediately replaced and that it anticipated replacing the remainder of its Aldyl-A over the next 15 to 19 years. Conversely, the evidence indicates that Atmos

⁹² See April 2, 2019 Hearing Transcript at 2:13–2:14 (in which Mr. Smith acknowledged it does not require immediate replacement); See also Smith Rebuttal at Exhibit GWS-R-1 (discussing monitoring and other risk mitigation options).

⁹³ Smith Rebuttal at Exhibit GWS-R-1 (in which the PHMSA notice refers to Aldyl-A manufactured prior to 1973).

⁹⁴ See April 2, 2019 Hearing Transcript at 1:59–2:02; April 2, 2019 Hearing Transcript at 2:48–2:50.

⁹⁵ April 2, 2019 Hearing Transcript 2:30:30–2:31:39 (indicating that PHMSA issued a stay of enforcement while they consider withdrawing rules).

⁹⁶ April 2, 2019 Hearing Transcript 2:43–2:48; See also April 2, 2019 Hearing Transcript 2:39–2:42 (Atmos's witness acknowledged that federal safety regulations do not require the repair of Grade 3 leaks, which Atmos attempts to repair within 36 months).

⁹⁷ Case No. 2018-00086, Electronic Adjustment of the Pipe Replacement program Rider of Delta Natural Gas Company, Order (KY PSC, August 21, 2018).

intends to replace Aldyl-A as quickly as it can obtain capital to do so regardless of the specific need to replace any particular section of pipe. It is this type of capital investment that concerns the Commission, particularly given the significant increases in Atmos's overall capital spending. Thus, the Commission is not able to find that Atmos's proposed level of spending on non-PRP capital projects is reasonable and necessary at this time.

The Commission acknowledges that some level of non-PRP spending is necessary, but Atmos has not shown that it is reasonable to increase non-PRP spending to include the capital that would have been spent on PRP projects but for the \$28 million limitation. It is not possible nor appropriate for the Commission to determine the adequate level of non-PRP spending by reviewing and prioritizing individual projects. Historic investment in the system has resulted in a safe and reliable system, according to Atmos' testimony. Atmos indicated in its testimony that the number of pipeline leaks detected has decreased, even in light of better detection equipment and more frequent leak surveys. Therefore, projected capital spending on non-PRP projects should be limited to a 5-year 2014 through 2018 historical average of \$29.26 million. Prioritizing individual non-PRP projects within that limit on capital spending is a task to be performed by Atmos.

Atmos performs an assessment and analysis of its pipelines as required by PHMSA. These plans, the Distribution Integrity Management Plan (DIMP) and the Transmission Integrity Management Plan (TIMP), are provided to the Commission's pipeline safety inspectors. Capital project spending should be consistent with the DIMP and TIMP as well as limited to the 5-year historical average of capital spending on non-PRP projects. This reduces Atmos's rate base by \$28,089,966; depreciation expense by \$491,659; and ad valorem taxes by \$193,209, which results in revenue requirement

reductions of \$2,823,783; \$495,125; and \$194,571, respectively. The net impact of this adjustment is a revenue requirement reduction of \$3,513,478.

Moreover, while the Commission is not imposing a specific limit on Atmos's non-PRP capital spending in years after the forecasted test period, the Commission may prohibit a return of and on investments that it finds unreasonable or unlawful. Atmos should ensure that the projects it selects to construct are consistent with its DIMP or TIMP. Moreover, if its total non-PRP capital spending exceeds the 5-year rolling average, Atmos should scrutinize the justification for its projects closely and be prepared to provide supporting documentation showing how each project is consistent with its DIMP or TIMP. Significant increases in capital spending would raise questions about the necessity of the spending and may require additional scrutiny by the Commission.

AFUDC or CWIP

Utilities can include either CWIP or AFUDC in rate base to recover financing costs of construction projects. Historically, the Commission has allowed Atmos to include CWIP, net of AFUDC, in rate base; however, in response to discovery, Atmos revealed that AFUDC capitalized in prior periods is still included in rate base as a component of net plant. Atmos argues that removal of CWIP introduces regulatory lag on projects that will be in service and proposes that the Commission make any changes on a prospective basis.⁹⁸ Atmos further argues that the removal of allocated CWIP from divisions that do not record AFUDC results in denial of return on investment and AFUDC.⁹⁹

⁹⁸ Waller Rebuttal Testimony at 9–10.

⁹⁹ *Id.* at 10.

The Attorney General recommends removing CWIP and previously capitalized AFUDC from rate base.¹⁰⁰ The Attorney General argues that Atmos was not authorized to record AFUDC for ratemaking purposes and advocates for the construction finance costs to be capitalized and recovered over the service lives of the assets.¹⁰¹

The Commission agrees with the Attorney General that Atmos is entitled to only include either AFUDC or CWIP in rate base. Atmos does not have the vintage data to calculate AFUDC currently included in net plant before 2006.¹⁰² The Commission finds that CWIP should be excluded from rate base, a revenue requirement reduction of \$3,933,618.

Atmos states that if CWIP is removed from rate base then short-term debt must be removed from the capital structure because short-term debt is primarily used to finance CWIP.¹⁰³ However, Atmos has not shown that it can trace the use of capital such as short-term debt to demonstrate that CWIP is supported solely by short-term debt and that absent CWIP there would be no short-term debt. This argument is unpersuasive as other

¹⁰⁰ Attorney General's Brief at 19–22.

¹⁰¹ *Id.*

¹⁰² Atmos's response to Commission Staff's Fifth Request for Information (Staff's Fifth Request), Item 10.

¹⁰³ Christian Rebuttal Testimony at 14; Atmos's Brief at 6.

utilities that exclude CWIP include short-term debt in their capital structures¹⁰⁴ and the Commission finds that no change to the capital structure is warranted.

Atmos's Benefits/Salaries/Wages/SERP

The Commission is in agreement with the level of salaries and wages for Atmos's forecasted test year. Consistent with Commission precedent in Case No. 2017-00349, Atmos made reductions to its revenue requirement to remove for ratemaking purposes its 401(k) matching contributions in the amount of \$518,619 for those employees also under a defined benefit plan, incentive compensation of \$962,983, and director's stock expense of \$189,721.¹⁰⁵ Through discovery, it was determined that Supplemental Executive Retirement Program (SERP) expenses of \$148,405 were paid by Atmos during the forecasted test year.¹⁰⁶

The Attorney General raised the issue of SERP compensation expenses at the hearing. While the Commission has traditionally denied compensation tied to financial performance standards, the record in this proceeding does not include the basis for SERP compensation. For this reason, the Commission finds the record in this proceeding does

¹⁰⁴ See Case No. 2016-00162, *Application of Columbia Gas of Kentucky, Inc. for an Increase in Base Rates* (Ky. PSC Dec. 22, 2016); Case No. 2017-00179, *Electronic Application of Kentucky Power Company for (1) A General Adjustment of Its Rates for Electric Service; (2) An Order Approving Its 2017 Environmental Compliance Plan; (3) An Order Approving Its Tariffs and Riders; (4) An Order Approving Accounting Practices to Establish Regulatory Assets and Liabilities; and (5) An Order Granting All Other Required Approvals and Relief* (Ky. PSC Jan. 18, 2018); and 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).

¹⁰⁵ Application, Volume 7, Schedules F.10 and F.11.

¹⁰⁶ Atmos's responses to the Attorney General's First Request for Information, Item 53, and Commission Staff's First Post-Hearing Data Request, Item 31.b.

not support the adjustment to disallow Atmos's SERP expenses as requested by the Attorney General. Nonetheless, the Commission will require Atmos to address the inclusion of the SERP expenses in rates in its next base rate proceeding, and based upon the evidence in the record at that time, may make an adjustment to disallow the SERP expenses.

Composite Allocation Factors

The Attorney General avers that the composite factors used to allocate expenses from Atmos's Shared Service Division and General Office Division to Atmos are unreasonable and recommends a revenue requirement reduction of \$724,553, to account for the modification of the composite factors.¹⁰⁷

While the Attorney General's proposed revision to the composite factors would result in less expense to Atmos, the Commission is unable to find that those revisions are appropriate. Atmos provided the allocation factors for fiscal years 2018 and 2019 for the Share Service Division and General Office Division for all states in which it operates and the allocation factors totaled 100 percent.¹⁰⁸ Therefore, the Commissions finds the allocation factors proposed by Atmos to be reasonable and no adjustment should be made to the composite factors.

Cash Working Capital Allowance

Atmos filed a lead/lag study with its application in this proceeding. Atmos proposes to include a cash working capital requirement of \$2,692,759 in the test-year rate base.¹⁰⁹

¹⁰⁷ Attorney General's Brief at 32–33.

¹⁰⁸ Atmos's response to Staff's Fifth Request, Item 1.

¹⁰⁹ Application, Volume 7, Schedule B.1 F.

The Attorney General proposed a reduction to the revenue requirement of \$845,932 to reflect cash working capital based on the removal of non-cash items from the lead/lag study.¹¹⁰

The Commission finds that the cash working capital allowance included in Atmos's rate base should be based upon the lead/lag study as filed, adjusted for expenses found reasonable herein. Accordingly, the Commission will reduce Atmos's rate base by \$987,582, a revenue requirement reduction of \$99,278.

Rate Case Regulatory Asset and Amortization

Atmos proposes to include \$255,014 in rate base for the 13-month average of a regulatory asset for its expenses related to this proceeding.¹¹¹ Atmos also proposed a 3-year amortization period for this regulatory asset, resulting in amortization expense of \$112,435.¹¹² Atmos projected rate case expenses of \$337,304 but only actually incurred \$189,861.¹¹³ Updating Atmos's proposed amounts to actuals reduces the 13-month average balance by \$79,883 and the amortization amount by \$49,147. The decreased regulatory asset balance results in a revenue requirement reduction of \$49,494 and the decreased amortization expense results in a revenue requirement reduction of \$8,063.

¹¹⁰ Attorney General's Brief at 22–24.

¹¹¹ Application, Volume 7, Schedule F.6.

¹¹² *Id.*

¹¹³ *Id.*; Atmos's supplemental response to Commission Staff's First Request for Information, Item 58, Attachment 1 (filed Mar. 29, 2019).

PRO FORMA ADJUSTMENTS SUMMARY

The effect of the Commission's adjustments on Atmos's pro forma test-period operations is as follows:

	Atmos Forecasted <u>Test Period</u>	Commission Accepted <u>Adjustments</u>	Commission Adjusted <u>Test Period</u>
Operating Revenues	\$169,717,866	\$ -0-	\$ 169,717,866
Operating Expenses	<u>142,015,942</u>	<u>(4,278,864)</u>	<u>137,737,078</u>
Net Operating Income	<u>\$ 27,701,923</u>	<u>\$ 4,278,864</u>	<u>\$ 31,980,788</u>

RATE OF RETURN

Capital Structure and Cost of Debt

The Kentucky/Mid-States Division of Atmos Energy Corporation is not a separate legal entity, and therefore Atmos Energy Corporation issues all debt or equity funding. For ratemaking purposes, the proposed capital structure is equivalent to the Atmos Energy Corporation capital structure as of June 30, 2018, with an adjustment to the outstanding long-term debt. This proposed capital structure consists of 38.31 percent long-term debt at a cost of 4.72 percent; 3.44 percent short-term debt at a cost of 2.40 percent; and 58.24 percent common equity with a proposed ROE of 10.40 percent.¹¹⁴ The adjustment to the long-term debt reflects the then-anticipated March 2019 refinancing of \$450 million, plus any other costs associated with this refinancing at an interest rate of 5.07 percent.¹¹⁵

¹¹⁴ Atmos's response to Staff's Second Request, Item 64, Schedule J.1.

¹¹⁵ *Id.*

The Attorney General raises concern over the capital structure, noting an increase in the common equity ratio paired with the requested ROE.¹¹⁶ The Attorney General points out that the common equity portion has increased from 52.57 percent, as approved in Atmos' last rate case, Case No. 2017-00349,¹¹⁷ to 58.24 percent in the pending case.¹¹⁸ The Attorney General notes that the increase in common equity, paired with Atmos' proposed ROE of 10.4 percent, significantly increases the cost of capital and base revenue requirement.¹¹⁹ The Attorney General also maintains that the proposed capital structure and cost of debt does not reflect the October 2018 Long-Term Debt Issuance for \$600 million at 4.30 percent interest.¹²⁰ The Attorney General recommends capping the common equity portion of the capital structure at 54.3 percent, which is the capital ratio after adjusting for the October debt issuance.¹²¹ In further support of the common equity cap, the Attorney General points out that the average common equity ratio for the proxy group used in the ROE analysis is approximately 53 percent.¹²²

The Attorney General also proposes to reduce the cost of the forecasted March 2019 Long-Term debt issuance.¹²³ As proposed by Atmos, the 5.07 percent interest rate

¹¹⁶ Kollen Testimony at 39–48.

¹¹⁷ Case No. 2017-00349, *Atmos* (Ky. PSC May 3, 2018).

¹¹⁸ Kollen Testimony at 39–40.

¹¹⁹ *Id.* at 40.

¹²⁰ *Id.* at 42.

¹²¹ *Id.* at 41.

¹²² *Id.* at 40.

¹²³ *Id.* at 43–45.

is the sum of the forecasted 30-year Treasury yield of 3.78 percent plus a 1.00 percent credit spread and 0.29 percent issuance fees.¹²⁴ The Attorney General recommends using a more current 30-year Treasury yield of 3.10 percent, plus the credit spread and issuance fees, for a forecasted rate of 4.39 percent.¹²⁵

In rebuttal, Atmos rejects the Attorney General's proposed cap for the common equity and argues that the common equity ratio in the proposed capital structure is within the 50 – 60 percent range that is common today, and is the result of increased investment in infrastructure across Atmos's distribution utilities.¹²⁶ Atmos further argues that a higher common equity ratio is characteristic of the current trend for utilities to strengthen the equity portion of their balance sheets in order to counter the impact that the Tax Cuts and Jobs Act has had on financial metrics.¹²⁷ Atmos avers that it has intentionally improved its credit metrics through increased equity and decreased reliance on debt financing for more favorable access to capital markets.¹²⁸

Atmos agrees that the cost of long-term debt should be adjusted to reflect the October 2018 debt issuance, but believes that all of the capital structure components should also be updated, including an equity issuance in November 2018 and the March 2019 debt issuance. Updating the capital structure with these known and measurable adjustments, including an update to the short-term debt rate, results in a capital structure

¹²⁴ *Id.* at 44.

¹²⁵ *Id.*

¹²⁶ Christian Rebuttal Testimony at 5–6.

¹²⁷ *Id.* at 6.

¹²⁸ *Id.* at 7.

of 39.73 percent long-term debt at a cost of 4.56 percent; 2.21 percent short-term debt at a cost of 3.40 percent; and 58.06 percent common equity.¹²⁹

In the post-hearing brief, the Attorney General reemphasizes his position that the common equity ratio is out of proportion not only to Atmos' needs but also in comparison to its peer companies.¹³⁰ In support of this position, the Attorney General provided the common equity ratios from the most recent SEC Form 10-K filings of each proxy group company, and found the average to be 50.2 percent, hence revising his position to cap common equity at 50.2 percent, or, at a minimum, the amount approved in the last rate case of 52.57 percent.¹³¹ The Attorney General further justifies a lower common equity portion by noting that Atmos's proposed capital structure directs more of its required rate of return to shareholder profits.¹³² The Attorney General observes that 76.30 percent of the revenue impact resulting from the cost-of-capital return on the proposed rate base relates exclusively to shareholder return.¹³³ The Attorney General agrees with Atmos's updated actual long-term debt rate of 4.56 percent for the October 2018 and March 2019 debt issuances, but is silent on all other capital structure updates.¹³⁴

The table below lists the common equity ratios for Atmos's present and past three rate cases:

¹²⁹ *Id.* at 8–11.

¹³⁰ Attorney General's Brief at 25.

¹³¹ *Id.*

¹³² *Id.* at 27.

¹³³ *Id.*

¹³⁴ *Id.* at 26.

Case No.	Common Equity Ratio
Pending Case	58.06%
2017-00349 ¹³⁵	52.57 %
2015-00343 ¹³⁶	None specified
2013-00148 ¹³⁷	49.16 %

Atmos's common equity ratio has had average annual increases of 18.10 percent.¹³⁸ This increase in common equity is also illustrated in Exhibit JTC-R-1 of the Rebuttal Testimony of Joe T. Christian. As noted above, Atmos admits to strengthening the equity component and contends that this upward movement is the result of increased investment.¹³⁹ Atmos provides the capital structure ranges since 2012 from Atmos Energy Corporation's SEC Form 10Ks noting that the parent company raised the top of its range to 60.00 percent in 2017 in order to maintain a strong balance sheet and credit rating.¹⁴⁰

Atmos's increase in common equity is concerning to the Commission, especially as compared to the proxy companies, which the Attorney General contends have a current equity ratio of 50.2 percent. Further, Atmos stated that the average debt/equity ratio for the proxy group, as reported by Value Line for 2021 – 2023, is 44 percent debt and 56 percent equity; whereas, Atmos's proposed capital structure is 40.63 percent debt

¹³⁵ Case No. 2017-00349, (Ky. PSC May 3, 2018), Order at 20.

¹³⁶ Case No. 2015-00343, *Application of Atmos Energy Corporation for an Adjustment of Rates and Tariff Modifications* (Ky. PSC Aug. 4, 2016).

¹³⁷ Case No. 2013-00148, *Application of Atmos Energy Corporation for an Adjustment of Rates and Tariff Modifications* (Ky. PSC Apr. 22, 2014) at 9.

¹³⁸ This increase in common equity is also illustrated in Exhibit JTC-R-1 of the Christian Rebuttal Testimony.

¹³⁹ Christian Rebuttal Testimony at 5.

¹⁴⁰ *Id.*

and 59.37 percent equity.¹⁴¹ The Commission agrees with the Attorney General in that Atmos's common equity ratio is excessive compared to its peers, resulting in an increase in the cost of capital and base revenue requirement. However, the capital structure, including the equity component, is known and measurable. Therefore, the Commission accepts the capital structure, as filed in Atmos's rebuttal testimony and will take the excessive equity ratio into consideration in setting the return on equity. Further, the Commission cautions Atmos about the high common equity ratio and finds that in future rate filings, the Commission may make adjustments to Atmos's common equity ratio, for ratemaking purposes, to be comparable to its peers.

Return on Equity

In its application, Atmos developed its proposed ROE using the Discounted Cash Flow (DCF) method, two Risk Premium (RP) methods, and two Capital Asset Pricing Model (CAPM) methods.¹⁴² Deriving it from the cost of capital evaluations, Atmos proposes an ROE, adjusted for flotation costs, of 10.4 percent based on the average of the model outputs.¹⁴³ Atmos maintains that an ROE of 10.4 percent is conservative because the financial risk of the comparable companies used in the models is less than the financial risk associated with the lower equity ratio used in Atmos's ratemaking capital structure.¹⁴⁴ The table below summarizes Atmos's ROE estimates:¹⁴⁵

¹⁴¹ *Id* at 6. Value Line excludes short-term debt. The calculation for Atmos also excludes short-term debt and is based upon Atmos's filed rebuttal capital structure.

¹⁴² Direct Testimony of James H. Vander Weide, Ph.D. (Vander Weide Testimony).

¹⁴³ *Id.* at 4.

¹⁴⁴ *Id.*

¹⁴⁵ *Id.* at 46.

STUDY	ROE
DCF	9.2%
Ex Ante Risk Premium	10.9%
Ex Post Risk Premium	10.2%
CAPM – Historical	9.7%
CAPM - DCF Based	11.7%
Average	10.4%

The Attorney General did not provide a specific ROE witness, but analyzed Atmos’s DCF model and Regulatory Research Associates’ Inc. (RRA) averages of authorized gas ROE’s.¹⁴⁶ The Attorney General only focused on the DCF model, stating that the Commission has historically relied on the DCF methodology for ROE analysis.¹⁴⁷ The Attorney General eliminated all floatation costs, noting that historically the Commission has rejected the use of flotation costs.¹⁴⁸ Using Atmos’s DCF model, the Attorney General states that the average of the proxy group, without flotation costs, is 9.1 percent.¹⁴⁹ The Attorney General also provided the RRA’s average authorized ROEs for general gas rate cases for 2017 and up to September 2018, of 9.72 and 9.62 percent, respectively.¹⁵⁰ The Attorney General initially recommended an ROE of 9.7 percent,

¹⁴⁶ Kollen Testimony at 45–48.

¹⁴⁷ Kollen Testimony at 46.

¹⁴⁸ *Id.*

¹⁴⁹ *Id.*

¹⁵⁰ *Id.* at 47.

noting that is in excess of the DCF model, without flotation costs, but is consistent with recently authorized returns for other gas utilities.¹⁵¹

In response to the Attorney General, Atmos maintains that a 10.4 percent ROE represents the average cost of equity when applying various cost-of-equity methods to the proxy group, and notes that frequently various methods are used to estimate the cost of equity.¹⁵² Atmos criticizes the Attorney General's witness for not providing any evidence to support his recommendation of a 9.7 percent ROE and notes that this is the same ROE awarded in Atmos's previous rate case, Case No. 2017-00349.¹⁵³ Atmos then criticizes the Commission for not explaining precisely how it arrived at the awarded 9.7 percent ROE in Case No. 2017-00349, and further points out disagreements it has with the Commission's conclusions concerning the ROE from the 2017 case.¹⁵⁴ Specifically, Atmos disagrees with the Commission's ruling regarding the exclusion of flotation costs, claiming that the Commission is not allowing Atmos to recover its full cost of stock issuances.¹⁵⁵ Atmos also speaks to the Commission's exclusion of South Jersey Industries as a proxy company for the DCF analysis and argues that the cost of equity recommendation should depend on multiple cost equity models, not a single model such as the DCF model.¹⁵⁶ In addition, Atmos offers its differing opinion regarding the

¹⁵¹ *Id.*

¹⁵² Rebuttal Testimony of James H. Vander Weide (Vander Weide Rebuttal Testimony) at 1–3.

¹⁵³ *Id.* at 3–10.

¹⁵⁴ *Id.* at 4.

¹⁵⁵ *Id.* at 4–5.

¹⁵⁶ *Id.* at 6.

consideration of other authorized ROEs in the gas utility industry and alludes to this data being stale.¹⁵⁷ Finally, Atmos mentions Duke Energy Kentucky's ROE award of 9.725 percent.¹⁵⁸

In the rebuttal testimony, Atmos notes that the Commission referred to the average earned ROE in the natural gas utility industry in its Final Order in Case No. 2017-00349, and that the Commission encouraged Atmos to look not only at other regulatory decisions but also at capital markets and expected returns from similar risk utilities.¹⁵⁹ Atmos presents similar information, updated for 2018. This data, based upon the earned and expected ROEs from Value Line for natural gas utilities, reports the average to be 10.4 percent for 2018 and forecasts 10.6 percent for 2022–2024.¹⁶⁰ Atmos states that these data further support its position that the Attorney General's recommended ROE is too low and that Atmos's proposed ROE of 10.4 percent is reasonable.¹⁶¹ Atmos also provides updated cost-of-equity studies supporting a 10.5 percent ROE.¹⁶²

In his post-hearing brief, the Attorney General addresses the 9.7 percent ROE awarded in Case No. 2017-00349, and emphasizes that the 9.7 percent ROE was for a

¹⁵⁷ *Id.* at 7–10.

¹⁵⁸ This awarded ROE was for Duke Energy Kentucky's electric division. The Commission follows the common industry belief that the risk associated with electric utilities is greater than that of natural gas utilities.

¹⁵⁹ Vander Weide Rebuttal Testimony at 9.

¹⁶⁰ *Id.* at 8.

¹⁶¹ *Id.*

¹⁶² *Id.* at 9–10.

test-year ending just recently, on March 31, 2019.¹⁶³ The Attorney General continues by stating that since Atmos's rates were set 11 months ago long-term interest rates have decreased.¹⁶⁴ The Attorney General reiterates that the Commission has never allowed for a flotation adjustment and accuses Atmos of further inflating its models by using a quarterly calculation in the DCF model and using forecasted interest rates based on the assumption that they will increase.¹⁶⁵

The Attorney General continues by stating that the evidence of record actually supports a decrease in Atmos's current ROE.¹⁶⁶ The Attorney General cites to the fact that Atmos's own models have decreased 20 basis points from a proposed 10.6 percent ROE in Case No. 2017-00349 to 10.4 percent in the pending case.¹⁶⁷ The Attorney General mentions that Atmos intends to file annual rate cases based upon forecasted test-years that will allow for recovery of all forecasted capital and operating costs, and thus reduce risk associated with the recovery of these costs.¹⁶⁸ The Attorney General uses Atmos's updated DCF analysis and removes the size premium and flotation costs for a model result of 9.44 percent, which he says is also inflated due to the use of a quarterly versus an annual DCF model.¹⁶⁹ The Attorney General recommends the

¹⁶³ Attorney General's Brief at 27.

¹⁶⁴ *Id.* at 28.

¹⁶⁵ *Id.*

¹⁶⁶ *Id.* at 29.

¹⁶⁷ *Id.*

¹⁶⁸ *Id.*

¹⁶⁹ *Id.* at 30.

Commission reject Atmos's CAPM analysis, citing the fact that Atmos's expert witness has rejected his own CAPM analyses in past cases due to the beta coefficient being below one (0.69 in this case), and reject the Risk Premium analysis as the Attorney General is unaware of the Commission ever explicitly approving that method.¹⁷⁰ The Attorney General states that, for all these reasons, he supports a decrease in the current ROE and revises his proposed ROE recommendation to 9.45 percent.¹⁷¹

In the post-hearing brief, Atmos reiterates its position that the Attorney General's witness presents no supporting study or analysis, has no expert experience on the subject of ROE, and merely concludes that the ROE should just be a predetermined ROE from a previous case.¹⁷² Atmos contends that the proposed ROE of 10.4 percent is supported by standard cost-of-equity estimation models such as the DCF, RP, and CAPM models.¹⁷³ Atmos further supports its assertion that the proposed ROE is conservative because it allows for Atmos an opportunity to recover prudently incurred operating expenses and earn a fair rate of return on its incurred investment.¹⁷⁴ Atmos notes that investors' perception of risk is strongly influenced by regulation and investors are aware when a regulator does not allow an opportunity to recover costs in a timely manner and earn a fair and reasonable return on investment.¹⁷⁵

¹⁷⁰ *Id.*

¹⁷¹ *Id.* at 31.

¹⁷² Atmos's Brief at 37.

¹⁷³ *Id.* at 37.

¹⁷⁴ *Id.*

¹⁷⁵ *Id.* at 39.

For the DCF model, Atmos employed a quarterly model.¹⁷⁶ Atmos believes a quarterly model is more correct than the annual DCF model since all the proxy group companies pay quarterly dividends.¹⁷⁷ The annual DCF model is more applicable for annual dividend payments. However, Atmos does note that the annual model produces similar results.¹⁷⁸ Atmos offers further support for the filed RP and CAPM models. Regarding flotation costs, Atmos states that regardless of the Commission's prior regulatory policy of disregarding these costs, they are appropriate and based on a recognized economic proposition and that disregarding these costs will not allow Atmos to earn a fair ROE.¹⁷⁹ Atmos further avers that if flotation costs are removed, a company has no incentive to invest in new capital projects.¹⁸⁰

Regarding interest rates, Atmos continues to support its opinion that interest rates will rise as the Federal Reserve System (FED) battles inflation and that a forecasted interest rate allows for a fair return.¹⁸¹ Atmos contends that the use of current interest rates is inconsistent with the fair rate of return standard.¹⁸² Atmos states that even with annual rate cases, forecasted long-term interest rates support its equity models because at each point in time the cost of equity reflects an investor's expected return over the long-

¹⁷⁶ *Id.* at 41.

¹⁷⁷ *Id.*

¹⁷⁸ Vander Weide Testimony at 20.

¹⁷⁹ Atmos's Brief at 42-43.

¹⁸⁰ *Id.* at 43.

¹⁸¹ *Id.* at 44.

¹⁸² *Id.*

term life of the investment, and current long-term interest rates may not reflect investors' estimates of the expected return over the life of the investment.¹⁸³ Atmos reiterates that a fair ROE is forward-looking, provides an opportunity to earn a return over the time rates are in effect, and is on par with the returns investors expect on comparable investments.¹⁸⁴ Atmos concludes that although the updated equity models estimate a 10.5 percent ROE, the utility believes an ROE of 10.4 percent will be consistent with current investor expectations, even with the intention to file annual rate cases and the potential reduction of regulatory lag.¹⁸⁵

The Commission has not altered its opinion regarding flotation costs and agrees with the Attorney General that flotation costs should be excluded from the ROE analysis. Atmos argues that if flotation costs are excluded then the issuing company will not be able to earn a fair ROE and that removal allows no incentive to invest in capital projects. Such an argument is unfounded and unsupported. This Commission has never allowed for the inclusion of flotation costs,¹⁸⁶ yet Atmos' PRP and Non-PRP investment has increased 125 percent since 2013.¹⁸⁷ Furthermore, as reported by Value Line, Atmos' average ROE between 2015 and 2018 is 9.78 percent.¹⁸⁸ Clearly, Atmos is earning a

¹⁸³ *Id.*

¹⁸⁴ *Id.* at 45.

¹⁸⁵ *Id.* at 46.

¹⁸⁶ Attorney General's Brief at 28.

¹⁸⁷ Kollen Testimony at 21. Direct Investment in 2013 was \$35.5 million and \$79.8 million in 2018.

¹⁸⁸ The Value Line Investment survey, Issue 3, March 1, 2019.

return despite the past exclusions of flotation costs.¹⁸⁹ The Commission also rejects Atmos's proposed size premium adjustments.

Atmos testified that interest rates would increase due to the FED's response to inflation.¹⁹⁰ Inflation has remained at or below the FED's target level of 2 percent since 2012.¹⁹¹ There was some concern in 2017 and 2018 about inflation rising, with a corresponding response by the FED.¹⁹² However, inflation worries have eased, as the current level of 1.9 percent inflation rate for the 12 months ending March 2019 indicates, and so have interest rates.¹⁹³ At the recent Federal Open Market Committee meeting, the FED held interest rates steady and indicated that no more increases would be coming this year, revising policy projections made just three months earlier.¹⁹⁴ This change supports the Commission's view that forecasted interest rates are unpredictable and not guaranteed, and that current interest rates are the best measure as they are unbiased and efficient. Atmos contends that there is an upward movement in interest rates and even disagrees with the FED's announcement of no new increases, relying instead on Value Line estimates. These differing forecasts support the proposition that forecasts vary and are uncertain.¹⁹⁵ For further support of the uncertainty in forecasted rates, one

¹⁸⁹ Atmos' response to Staff's Second Request, Item 55; Vander Weide Rebuttal Testimony at 8; Atmos's Response to the Attorney General's First Request for Information, Item 26.

¹⁹⁰ Atmos's Brief at 44.

¹⁹¹ See <https://www.usinflationcalculator.com/inflation/current-inflation-rates/>

¹⁹² See <https://www.federalreserve.gov/monetarypolicy/openmarket.htm>

¹⁹³ See <https://www.usinflationcalculator.com/inflation/current-inflation-rates/>

¹⁹⁴ See <https://www.federalreserve.gov/monetarypolicy/fomcpresconf20190320.htm>

¹⁹⁵ Atmos's response to Staff's First Post-Hearing Request, Item 17.

can look at the 10-year, 20-year, and 30-year Treasury Yields since the final Order in Case No. 2017-00349. These Treasury yields have actually decreased.¹⁹⁶ Atmos's expert witness on ROE, Mr. Vander Weide, stated during the formal hearing that although the interest rates have remained relatively flat since the last rate case, he does not expect this trend to continue.¹⁹⁷ Mr. Vander Weide made the same statement in Case No. 2017-00349, testifying that future interest rates will be higher than current interest rates, when in fact this has not occurred.¹⁹⁸ Mr. Vander Weide stated that a forward-looking return is based on the latest available information in the capital markets, but the Commission believes that in this current economic and low-interest-rate environment, forecasted interest rates are not reliable and the best estimate is the most current interest rate.

For 2017, the average authorized ROE in the natural gas utility industry as reported in the RRA's quarterly review was 9.72 percent and, absent an outlier, 9.63 percent.¹⁹⁹ For general rate cases decided from January 2018 through September 2018, the average authorized natural gas return was 9.62 percent.²⁰⁰ Atmos submitted Value Line's average earned and expected returns on equity for natural gas utilities for 2018, which was 10.4 percent. This average included a 17.1 percent ROE for New Jersey Resources. When Dr. Vander Weide was asked at the formal hearing whether he believed the 17.1 percent ROE was an outlier and if he believed this type of return to be sustainable, he stated that

¹⁹⁶ Atmos's response to Staff's Fifth Request for Information, Item 9.

¹⁹⁷ April 2, 2019 Hearing Transcript at 9:14:09.

¹⁹⁸ Case No. 2017-00349, Direct Testimony of James H. Vander Weide Ph.D. at 31.

¹⁹⁹ Case No. 2017-00349, Atmos (Ky. PSC May 3, 2018), Order at 29.

²⁰⁰ Kollen Testimony at 47; In the April 11, 2019 edition of the RRA Regulatory Focus, the average ROE for natural gas utilities was 9.55 percent for the first quarter of 2019 and 9.59 percent for 2018.

he would not look at the 2018 numbers but at the 2022-2024 estimates of 10.6 percent as a more reliable estimate of investor expectation.²⁰¹ This Commission finds that New Jersey Resources' ROE is an outlier and not sustainable.²⁰² Removing New Jersey Resources results in an average 2018 earnings of 9.61 percent.

Removing the flotation and size premium adjustments²⁰³ and using the current interest rates, Atmos's models produce the following results:

STUDY	ROE
DCF ²⁰⁴	9.1%
Ex Ante Risk Premium ²⁰⁵	9.7%
Ex Post Risk Premium ²⁰⁶	8.8%
CAPM – Historical ²⁰⁷	9.1%
CAPM - DCF Based ²⁰⁸	11.6%
Average	9.66%

²⁰¹ April 2, 2019 Hearing Transcript at 9:29:10.

²⁰² The March 2019 Value Line indicated that the equity's priced has receded about 6.5 percent since November supporting the unsustainability of such a high ROE. The reported ROE as of May 1, 2018 was 13.78 percent (see <https://finance.yahoo.com/quote/NJR/key-statistics?p=NJR>).

²⁰³ This Commission has never allowed for size premium adjustments nor has it ever been explicitly approved or cited in Orders from other States which regulate Atmos. See Atmos's response to Staff's First Post-Hearing Request, Item 20.

²⁰⁴ Atmos's response to Staff's Second Request, Item 54.

²⁰⁵ *Id.*, Item 50; Vander Weide Testimony at 32. Adding the current average yield on A-rated bonds of 4.45 percent of the risk premium of 5.2 percent.

²⁰⁶ *Id.*, Item 50; Vander Weide Testimony at 36. Adding the current average yield on A-rated bonds of 4.45 percent to the midpoint of the risk premium of 4.35.

²⁰⁷ *Id.*, Item 56.

²⁰⁸ *Id.*, Item 57.

The Commission believes that if Atmos files annual rate cases, as it has indicated it will do, regulatory lag will be reduced. Dr. Vander Weide testified that annual rate cases can reduce regulatory lag, but this is dependent upon whether historical or forecasted data is used for expenses, rate base, and capital expenditures, as historical data increases regulatory lag. He further stated that using a forward-looking test year allows the utility to actually earn its required rate of return, but if the data is historical then the utility cannot.²⁰⁹ Atmos is using a forecasted test year, which, coupled with annual rate cases, allows Atmos to mitigate the risk inherent to the regulatory process. In addition, trackers such as the PRP, which is being maintained with forecasted spending levels, allow for more timely capital cost recovery, to the benefit of Atmos and its stockholders. In evaluating Atmos's ROE, the Commission considered this reduction in regulatory lag and the filing of frequent rate adjustment applications based upon forecasted test periods.²¹⁰ Additionally, Atmos's own model results, as adjusted in the table above,²¹¹ of 9.66, the current proxy company yields of 9.61 percent, and the average ROE awarded through September 2018 of 9.62 percent support an awarded ROE that is lower than Atmos's proposed 10.4 percent. The Commission recognizes the expected ROE of 10.6 percent for natural gas utilities, but with annual rate cases, Atmos will have filed two more cases by 2022 and the data in these future cases will more accurately reflect the 2022 – 2024 period. The Commission also recognizes Atmos's current level of equity and the

²⁰⁹ April 2, 2019 Hearing Transcript at 9:02:26.

²¹⁰ See, Case No. 2010-00036, *Application of Kentucky-American Water Company for an Adjustment of Rates Supported by a Fully Forecasted Test Year* (Ky. PSC Dec. 14, 2010).

²¹¹ Adjustments include removal of flotation costs and size premium adjustments and reflects the most current interest rates filed in the record.

decrease in risk associated with an increase in the customer charge, as discussed below. This customer charge increase will remove much of the reliance upon weather for revenue, lowering Atmos' risk of revenue exposure. Therefore, the Commission finds that an ROE of 9.65 provides Atmos with a fair and reasonable rate of return. In this decision, the Commission considers analysts' projections regarding future growth, as used in the DCF analysis. But just as important, the Commission must give consideration to the current economic environment, which is showing signs of slower growth and a dampened momentum. The Commission would also remind Atmos that our role is not to provide modeling, but to evaluate the parties' models and the current economy, and to arrive at an opinion regarding the evidence while balancing the needs of both utilities and consumers when determining rates that are fair, just, and reasonable. The effect of this adjustment is a reduction in the revenue requirement of \$2,928,240.

Rate-of-Return Summary

Applying the cost rates of 3.40 percent for short-term debt, 4.56 percent for long-term debt, and 9.65 for common equity to the proposed capital structure percentages consisting of 2.21 percent, 39.73 percent, and 58.06 percent, respectively, produces an overall cost of capital of 7.49 percent.

REVENUE REQUIREMENTS

Based upon Atmos's revised requested increase of \$14,509,652 and recognizing downward adjustments of \$14,771,421 found reasonable herein,²¹² Atmos's revenue sufficiency is \$261,769.

²¹² See Appendix A to this Order for a summary of adjustments.

PRICING ISSUES

Cost-of-Service Study

Atmos filed three fully allocated cost-of-service studies (COSS), as required by Case No. 2013-00148.²¹³ The Attorney General's testimony did not address Atmos's COSSs and did not include any alternate COSSs. Having reviewed the three COSSs, the Commission finds that the COSSs are acceptable to use as a guide in setting rates for Atmos. The Commission further finds that the directive from Case No.2013-00148 for Atmos to file multiple-methodology COSSs in future rate cases is no longer necessary. However, Atmos may file multiple studies, as Columbia Gas does, if it so chooses.²¹⁴

Revenue Allocation

The process used by Atmos to forecast test period revenues is the same as prior rate case filings, which is normalized based on 20-year average heating degree-days. This method has been found to be reasonable and accepted without adjustment in past rate cases.

Atmos proposes to retain its current rate structure and general balance of fixed and variable cost recovery, which is supported by its filed COSS. While the results of its COSS show that the Residential and Non-Residential Interruptible Sales do not adequately contribute to its cost to serve, it chose to allocate a portion of the requested revenue increase to each customer class.²¹⁵ Atmos proposes to increase the customer

²¹³ Case No. 2013-00148, Application of Atmos Energy Corporation for an Adjustment of Rates and Tariff Modifications (Ky. PSC May 22, 2014). Atmos filed a Customer/Demand study, a Demand/Commodity study, and a Demand-Only study.

²¹⁴ See Case No. 2016-00162, *Application of Columbia Gas of Kentucky, Inc. for an Increase in Base Rates* (Ky. PSC Jan. 22, 2016).

²¹⁵ Martin Testimony at 13.

charges of all classes, and allocate the remainder of each class's increase to volumetric rates.²¹⁶ The results illustrate that the Non-Residential Interruptible Sales Class contributes a minimal to negative return at present rates and that the proposed increase was significantly less than what was necessary to remove any subsidy. Atmos states that the class consists of only ten customers and the usage is significantly lower than the usage in other classes.²¹⁷ Atmos suggests a balanced view of class costs would be to combine this class with the much larger Interruptible Transportation class.²¹⁸ Atmos further notes the rate design dictates the same customer charge and distribution rates for the two Interruptible rate classes, so that any change to one would affect the other.²¹⁹ Atmos submits that as proposed, the revenue distribution is a reasonable movement toward reducing interclass subsidies and the residential class is not subsidizing any other class, including the Non-Residential Interruptible Sales Class.²²⁰ As previously mentioned the Attorney General submitted no COSS and made no recommendation regarding revenue allocations.

The Commission agrees with Atmos's testimony regarding the Non-Residential Interruptible Sales Class and further agrees that currently the residential class is not subsidizing this or any other rate class. The Commission's allocation of the required

²¹⁶ *Id.*

²¹⁷ Atmos's Brief at 49.

²¹⁸ *Id.*

²¹⁹ *Id.* at 50.

²²⁰ *Id.* at 51.

revenue, as reflected in the rates found reasonable herein, and, as discussed below, will be applied to both the base monthly customer charges and the volumetric rates.

Rate Design

Atmos proposed no change in rate design, maintaining a monthly base customer charge and declining block volumetric rates for all rate schedules. It proposed to increase the G-1 Firm Sales Service base customer charge to \$20.50 for residential customers and to \$51.75 for non-residential customers. It also proposed to increase the base customer charge for G-2 Interruptible Sales Service and for T-4 and T-3 Firm and Interruptible Transportation Service customers to \$435.00. Atmos proposed to increase volumetric rates for all customer classes.

As previously mentioned, the Attorney General made no recommendation with regard to rate design in direct testimony, nor did the Attorney General make any specific recommendations as to rates resulting from any decrease or increase in revenues approved by the Commission. The Attorney General did make a recommendation regarding rate design in his post-hearing brief. Here, the Attorney General contends that Atmos has not presented any evidence that the current residential customer charge needs to be increased.²²¹ The Attorney General notes that the Commission rejected the same proposed customer charge in its last rate case, stating the current charges were reasonable and should remain at their current levels for all customer classes.²²²

²²¹ Attorney General's Brief at 33.

²²² *Id.*

The proposed residential customer charge of \$20.50 is supported by the filed COSS's and supports the Commission's movement towards a rate structure that is based upon the cost to serve each customer class. However, based upon the approved revenue requirement, this proposed residential customer charge increase, coupled with the decrease in the volumetric rate, places an overall increase on the average residential customer bill. In keeping with Atmos's proposed percent of revenue contribution from each volumetric block, a residential customer charge of \$18.40 results in a revenue-neutral impact upon the average residential customer. However, the Commission believes that increasing the residential customer charge from \$17.50 to \$18.40 does not move the residential class close enough to the true cost to serve. The Commission finds that increasing the residential customer charge to \$19.30 and decreasing the volumetric rate accordingly, so that the average bill impact is revenue neutral, results in rates that are fair, just, and reasonable. The Commission recognizes that the residential class is not paying its full cost of service. This rate design will further reduce the residential class subsidy and move the entire rate design closer to the cost to serve. Therefore, the Commission will approve a residential customer charge of \$19.30. This increase in the residential customer charge decreases risk and revenue exposure associated with a decreased reliance on weather and this impact is reflected in the awarded ROE. The Commission further finds that the proposed customer charges for the remaining rate classes are within the range of reasonableness and will be approved.

TARIFF ISSUES

Pipeline Replacement Program

Atmos's compliance tariff containing the Commission's requirements in this Order should reflect its PRP tariff as approved prior to the Commission's final order revising the PRP provisions in Case No. 2017-00349.

Demand-Side Management Cost Recovery Mechanism

Atmos requests minor text changes to its DSM tariff related to the timing of the distribution charge adjustment. The Commission finds that these changes are reasonable and should be approved. The Commission also finds that, upon the implementation of new base rates, the DSM Lost Sales Adjustment component of Atmos's DSM cost-recovery mechanism should be reset to zero. Atmos's compliance tariff should reflect this revision to the DSM Cost Recovery Mechanism.

WNA Rider

Atmos is proposing to update the period used to weather normalize revenues for the WNA Rider. The Commission finds that this update is reasonable and should be approved.

MISCELLANEOUS ISSUES

Lobbying Activities

The Attorney General proposes that the Commission disallows for ratemaking purposes the entire salary of Mr. Martin, the Vice President of Rates and Regulatory Affairs for the Kentucky/Mid-States Division of Atmos.²²³ The Attorney General asserts

²²³ Attorney General's Brief at 13.

that Mr. Martin is listed on the March 26, 2019 Kentucky Registered Legislative Employers list as the in-state contact for Atmos Energy.²²⁴ Mr. Martin admits that he does have some communication with Atmos's employed lobbyist, Mr. Raymond "Rusty" R. Ashcraft, and files periodic reports as required by the Legislative Ethics Commission.²²⁵ However, the Attorney General contends that Mr. Martin has not defined how much of his time is spent on lobbying efforts on behalf of Atmos, communication with the legislature, or communication with Atmos's Governmental and Public Affairs Department in Dallas, Texas.²²⁶ The Attorney General also argues that Mr. Martin declined to answer cross-examination questions at the formal hearing regarding certain accounting issues, such as Atmos's election of CWIP vs. AFUDC, as well as the calculation of its rate base and revenue requirement in the pending filing, but instead deferred those lines of questioning to another Atmos witness.²²⁷ Due to these issues, the Attorney General recommends that the Commission disallow Mr. Martin's salary in its entirety.

Commission regulation 807 KAR 5:016 prohibits the inclusion of any expenditures for political advertising for ratemaking purposes. As defined in 807 KAR 5:016, Section 4(1)(a), political advertising is intended to influence "public opinion with respect to legislative, administrative, or electoral matters, or with respect to any controversial issue of public importance." The Commission has historically disallowed lobbying expenses from being included in base rates, including the exclusion of certain portions of

²²⁴ *Id.*; April 2, 2019 Hearing Transcript at 10:42:01–10:46:20.

²²⁵ Attorney General's Brief at 13; Attorney General's Hearing Exhibit 15.

²²⁶ *Id.*

²²⁷ Attorney General's Brief at 14.

employee's salaries that were determined to be lobbying-related, as well as the corresponding portion of the employee taxes and benefits.

The Attorney General did not raise the lobbying issue until the formal hearing, and as such, the Commission finds that there is a lack of evidence in the record to grant the Attorney General's request to disallow Mr. Martin's salary in its entirety. At the formal hearing, Mr. Martin stated that he spends a minimal amount of time handling administrative issues relating to lobbying.²²⁸ Nonetheless, the Commission will require Atmos to prospectively keep adequate records to delineate the time that Mr. Martin, or any Atmos employee, spends on lobbying efforts. The Commission puts Atmos on notice that these records need to be filed with its next base rate case, at which time a determination will be made if any adjustment to employee salaries, taxes, and benefits is needed to reflect lobbying-related activities.

Certificate of Public Convenience and Necessity (CPCN)

Atmos states that its process for determining whether to file an application with the Commission for a CPCN before beginning the construction of any plant, equipment, property, or facility, is to review each project and decide whether it falls within the scope of KRS 278.020 or 807 KAR 5:001(15)(3).²²⁹ Kentucky statute requires that a utility must first acquire a CPCN prior to beginning construction of any plant, equipment, property, or

²²⁸ April 2, 2019 Hearing Transcript at 10:42:01–10:46:20.

²²⁹ Atmos's response to Commission Staff's Third Request for Information (Staff's Third Request), Item 3; April 2, 2019 Hearing Transcript at 11:34:00–11:41:00.

facility, except for certain service connections for electric-consuming facilities and ordinary extensions in the usual course of business.²³⁰

KRS 278.020 provides, in pertinent part, that:

No person, partnership, public or private corporation, or combination thereof shall commence providing utility service to or for the public or begin the construction of any plant, equipment, property, or facility for furnishing to the public any of the services enumerated in KRS 278.010, except retail electric suppliers for service connections to electric-consuming facilities located within its certified territory and ordinary extensions of existing systems in the usual course of business . . . until that person has obtained from the Public Service Commission a certificate that public convenience and necessity require the service or construction.

807 KAR 5:001, Section 15(3), further provides:

Extensions in the ordinary course of business. A certificate of public convenience and necessity shall not be required for extensions that do not create wasteful duplication of plant, equipment, property, or facilities, or conflict with the existing certificates or service of other utilities operating in the same area and under the jurisdiction of the commission that are in the general or contiguous area in which the utility renders service, and that do not involve sufficient capital outlay to materially affect the existing financial condition of the utility involved, or will not result in increased charges to its customers.

The Commission has interpreted this statute and regulation to mean that a CPCN is not necessary “for facilities that do not result in the wasteful duplication of utility plant, do not compete with the facilities of existing public utilities, and do not involve a sufficient capital outlay to materially affect the existing financial condition of the utility involved or to require an increase in utility rates.”²³¹ The Commission has also frequently found, based

²³⁰ KRS 278.020.

²³¹ Case No. 2000-00481, *Application of Northern Kentucky Water District (A) For Authority to Issue Parity Revenue Bonds in the Approximate Amount of \$16,545,000; and (B) A Certificate of Convenience and Necessity for the Construction of Water Main Facilities* (Ky. PSC Aug. 30, 2001), Order at 4.

on specific facts presented by a utility, that the construction of a proposed facility, other than an office building, is in the ordinary course of business and does not require a CPCN if the cost represents less than two percent of the utility's net utility plant, and will not require financing approval by the Commission.²³²

A review of the Commission's records shows Atmos has never filed an application under KRS 278.020 for a CPCN with the Commission to construct a plant, equipment, property, or a facility. The only CPCN request that Atmos has filed with the Commission has been under KRS 278.020(5) for authorization to bid on franchises.²³³ In the pending case, Atmos maintains that none of the capital expenditure projects included in the test period would require the issuance of a CPCN. Atmos asserts that all of the projects are considered in the ordinary course of business, and they do not materially impact Atmos's financial condition based upon the 2 percent of net utility plant parameter applied by the Commission in other cases.²³⁴

²³² See, e.g., Case No. 2015-00284, *Application of East Kentucky Power Cooperative, Inc. for an Order Declaring the Expansion of the Bavarian Landfill Gas to Energy Project to be an Ordinary Extension of Existing Systems in the Usual Course of Business* (Ky. PSC Nov. 20, 2015); Case No. 2012-00269, *Tariff Filing of Warren County Water District to Establish the Rockfield School Sewer Capital Recovery Fee* (Ky. PSC Nov. 19, 2012); Case No. 2007-00058, *Application of Big Rivers Electric Corporation for Approval of an Interconnection Agreement with Kentucky Utilities Company* (Ky. PSC Apr. 16, 2007); Case No. 2002-00474, *Application of East Kentucky Power Cooperative, Inc. for an Order Declaring the Green Valley and Laurel Ridge Landfill Gas to Energy Projects to Be Ordinary Extensions of Existing Systems in the Usual Course of Business* (Ky. PSC Mar. 3, 2003); Case No. 98-508, *Application of Kentucky Turnpike Water District for a Declaration that a Certificate of Public Convenience and Necessity Is not Required or, in the Alternative, for the Issuance of Such a Certificate of Public Convenience and Necessity* (Ky. PSC Nov. 19, 1998); Case No. 92-028, *Application of Kenton County Water District No. 1 for Authority to Perform Maintenance at its Taylor Mill Treatment Plant by Replacing Filer Valves at a Total Cost of Approximately \$700,000* (Ky. PSC Feb. 18, 1992); See also Case No. 2013-00365, *Application of Delta Natural Gas Company, Inc. for an Order Declaring that it is Authorized to Construct, Own and Operate a Compressed Natural Gas Station in Berea, Kentucky* (Ky. PSC Mar. 30, 2015).

²³³ <https://www.psc.ky.gov>

²³⁴ Atmos's response to Staff's Third Request, Item 27 (citing to Commission Staff Opinion 2017-005).

Atmos sets forth a net utility plant for the base period of \$474,449,000, and a forecasted net utility plant of \$564,564,000.²³⁵ Based upon Atmos's reliance upon the 2 percent of net utility plant parameter, Atmos should have filed an application for a CPCN for any capital project that exceeded \$9,488,980 in the base period and \$11,291,280 in the forecasted period. When reviewing Atmos's capital expenditure projects in the pending case, and only analyzing whether Atmos should have filed an application for a CPCN assuming it was utilizing the 2 percent of net utility plant parameter, there are at least three non-PRP projects in which the total cost of each project greatly exceeds \$9,488,980.²³⁶

Atmos has the responsibility to ensure that it follows the Commission's statutes and regulations, and that all statutory and regulatory approvals are properly obtained. Based upon the fact that Atmos has never filed an application for a CPCN with the Commission, except to bid on franchises, coupled with evidence of at least three capital expenditure projects in the pending case that arguably required a CPCN, it does not appear that Atmos has fulfilled this responsibility. In the future, when Atmos is analyzing whether it needs to file an application for a CPCN with the Commission, Atmos should, as a starting point, use the total cost of the construction of the facilities instead of solely fiscal or calendar year costs. Any construction of facilities that creates wasteful duplication, or conflicts with certificates granted to other utilities, or that will materially

²³⁵ Application, Schedule K.

²³⁶ Atmos's response to Commission Staff's Second Post-Hearing Request for Information, Item 1, Attachment 1. (2734 BG Center Line Phase 3, 2739. Hwy 53 to Waddy Line Ph 2, and 2609 ANR Bon Harbor).

affect the utility's financial condition, or that will result in increased charges to customers, is not in the ordinary course of business and does require a CPCN.

The Commission has the authority to assess penalties under KRS 278.990 for utilities that begin construction prior to obtaining a CPCN. Atmos is now on notice that a CPCN is needed for any future construction of facilities that are not in the ordinary course of business and that failure to obtain a CPCN prior to commencing construction may result in a show cause proceeding.²³⁷

SUMMARY

The Commission, after consideration of the evidence of record and being otherwise sufficiently advised, finds that:

1. The rates set forth in Appendix B to this Order are the fair, just, and reasonable rates for Atmos to charge for service rendered on and after May 8, 2019.
2. The rate of return granted herein is fair, just, and reasonable, and will provide sufficient revenue for Atmos to meet its financial obligations with a reasonable amount remaining for equity growth.
3. The rates proposed by Atmos would produce revenue in excess of that found reasonable herein and should be denied.
4. Atmos's proposal to calculate depreciation rates based on the ELG methodology should be denied and its depreciation rates resulting from the ALG methodology, as discussed in the finding above, should be approved.

²³⁷ In the event that Atmos is unsure of whether a particular project requires a CPCN, it should either request a Commission Staff Opinion or file an application for a declaratory order with the Commission.

5. Atmos should file a new depreciation study using the ALG methodology for Commission review by the earlier of five years from the date of this Order or the filing of its next general rate application.

6. Atmos should establish a regulatory liability in the amount of \$3,676,784 for the remainder of the reduction in depreciation expense, the amortization of which will be addressed in Atmos's next base rate case

7. The PRP and associated tariffs should be modified as discussed herein.

IT IS THEREFORE ORDERED that:

1. The rates and charges proposed by Atmos are denied.

2. The rates in Appendix B to this Order are approved for service rendered by Atmos on and after May 8, 2019.

3. Atmos's proposal to calculate depreciation rates based on the ELG methodology is denied and its depreciation rates shall be calculated using the ALG methodology, as discussed in the finding above.

4. Atmos shall file a new depreciation study using the ALG procedure for Commission review by the earlier of five years from the date of this Order or the filing of its next general rate application.

5. Atmos shall establish a regulatory liability in the amount of \$3,676,784 for the remainder of the reduction in depreciation expense, the amortization of which will be addressed in Atmos's next base rate case.

6. Within 20 days of the date of this Order, Atmos shall file with the Commission the accounting entries made on its books of account to effectuate the creation of the regulatory liability required by ordering paragraph 5.

7. Within 20 days of the date of this Order, Atmos shall file with the Commission, using the Commission's Electronic Tariff Filing System, new tariff sheets setting forth the rates, charges, and revisions approved herein, including those required for the PRP, and reflecting their effective date and that they were authorized by this Order.

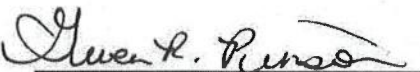
8. Absent a request for rehearing, this case will be closed and removed from the Commission's docket upon expiration of the statutory period to request rehearing.

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By the Commission

ENTERED
MAY 07 2019
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

Case No. 2018-00281

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2018-00281 DATED MAY 07 2019

Atmos Energy Corporation - Kentucky Division Summary of Adjustments KPSC Case No. 2018-00281 Test Year Ended March 31, 2020 \$ Millions			
			Adjustment Amount
Atmos Requested Increase			
Atmos Request Based on Original Filing			\$ 14.456
Atmos Corrections to State Tax Rate, Depreciation, and Other			0.054
Atmos Adjusted Request			14.510
Effects of Operating Income Adjustments on Revenue Requirement			
	Expense Amount	GRCF	
Adjust Depreciation Expense to Reflect Half of Change in Depreciation Rates	(3.677)	1.00705	(3.703)
Remove Depreciation Expense Related to PRP After 9/30/19	(0.091)	1.00705	(0.091)
Remove Ad Valorem Taxes Related to PRP After 9/30/19	(0.034)	1.00705	(0.034)
Reduce Depreciation Expense Related to Reduction of Non-PRP Projected Plant Expenditures	(0.492)	1.00705	(0.495)
Reduce Ad Valorem Expense Related to Reduction of Non-PRP Projected Plant Expenditures	(0.193)	1.00705	(0.195)
Adjustment to Rate Case Expense Amortization	(0.049)	1.00705	(0.049)
Effects of Rate Base Adjustments on Revenue Requirement			
	Net Adjustment	GRCF	
Adjust Accumulated Depreciation and ADIT to Reflect Half of Change in Depreciation Rates	0.169	1.34184	0.227
Remove PRP Plant Additions After 9/30/19	(0.375)	1.34184	(0.503)
Reduce Projected Non-PRP Plant	(2.104)	1.34184	(2.824)
Remove CWIP from Rate Base	(2.932)	1.34184	(3.934)
Cash Working Capital Adjustment	(0.074)	1.34184	(0.099)
Adjustment to Rate Case Expense Regulatory Asset	(0.006)	1.34184	(0.008)
Effects of Rate of Return Adjustments on Revenue Requirement			
Include Effects of October 4, 2018 Debt Issue on Capital Structure and Debt Rate			0.011
Use Actual Debt Rate for March 2019 Refinance			(0.146)
Reflect Return on Equity of 9.65			(2.928)
Total Adjustments			(14.771)
Base Rate (Decrease)/Increase after Adjustments			\$ (0.262)

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2018-00281 DATED **MAY 07 2019**

The following rates and charges are prescribed for the customers served by Atmos Energy Corporation. 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.

RATE G-1
GENERAL FIRM SALES SERVICE

Base Charge

\$19.30 per meter per month for residential service
\$51.75 per meter per month for non-residential service

Distribution Charge

First	300 Mcf	\$ 1.3855 per Mcf
Next	14,700 Mcf	\$.9578 per Mcf
Over	15,000 Mcf	\$.7651 per Mcf

RATE G-2
INTERRUPTIBLE SALES SERVICE

Base Charge

\$435.00 per delivery point per month

Distribution Charge

First	15,000 Mcf	\$.8327 per Mcf
Over	15,000 Mcf	\$.6387 per Mcf

RATE T-3
INTERRUPTIBLE TRANSPORTATION SERVICE

Base Charge

\$435.00 per delivery point per month

Distribution Charge for Interruptible Service

First	15, 000 Mcf	\$.8327 per Mcf
Over	15, 000 Mcf	\$.6387 per Mcf

RATE T-4
FIRM TRANSPORTATION SERVICE

Base Charge

\$435.00 per delivery point per month

Distribution Charge for Firm Service

First	300 Mcf	\$ 1.3855 per Mcf
Next	14, 700 Mcf	\$.9578 per Mcf
Over	15, 000 Mcf	\$.7651 per Mcf

Pipeline Replacement Program Rider Rates

	<u>Monthly Customer Charge</u>		<u>Distribution Charge per Mcf</u>
Rate G-1 (Residential)	\$ 0.00		\$0.0000
Rate G-1 (Non-Residential)	\$ 0.00		\$0.0000
Rate G-2	\$ 0.00	1-15,000 Mcf	\$0.0000
		Over 15,000 Mcf	\$0.0000
Rate T-3	\$ 0.00	1-15,000 Mcf	\$0.0000
		Over 15,000 Mcf	\$0.0000

Rate T-4

\$ 0.00

1-300 Mcf	\$0.0000
301-15,000 Mcf	\$0.0000
Over 15,000 Mcf	\$0.0000

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For release at
8:30 a.m. EST
February 11, 2020

Statement by
Jerome H. Powell
Chair
Board of Governors of the Federal Reserve System
before the
Committee on Financial Services
U.S. House of Representatives
February 11, 2020

Chairwoman Waters, Ranking Member McHenry, and other members of the Committee, I am pleased to present the Federal Reserve's semiannual *Monetary Policy Report*.

My colleagues and I strongly support the goals of maximum employment and price stability that Congress has set for monetary policy. Congress has given us an important degree of independence to pursue these goals based solely on data and objective analysis. This independence brings with it an obligation to explain clearly how we pursue our goals. Today I will review the current economic situation before turning to monetary policy.

Current Economic Situation

The economic expansion is well into its 11th year, and it is the longest on record. Over the second half of last year, economic activity increased at a moderate pace and the labor market strengthened further, as the economy appeared resilient to the global headwinds that had intensified last summer. Inflation has been low and stable but has continued to run below the Federal Open Market Committee's (FOMC) symmetric 2 percent objective.

Job gains averaged 200,000 per month in the second half of last year, and an additional 225,000 jobs were added in January. The pace of job gains has remained above what is needed to provide jobs for new workers entering the labor force, allowing the unemployment rate to move down further over the course of last year. The unemployment rate was 3.6 percent last month and has been near half-century lows for more than a year. Job openings remain plentiful. Employers are increasingly willing to hire workers with fewer skills and train them. As a result, the benefits of a strong labor market have become more widely shared. People who live and work in low- and middle-income communities are finding new opportunities. Employment gains have been broad based across all racial and ethnic groups and levels of education. Wages have been rising, particularly for lower-paying jobs.

Gross domestic product rose at a moderate rate over the second half of last year. Growth in consumer spending moderated toward the end of the year following earlier strong increases, but the fundamentals supporting household spending remain solid. Residential investment turned up in the second half, but business investment and exports were weak, largely reflecting sluggish growth abroad and trade developments. Those same factors weighed on activity at the nation's factories, whose output declined over the first half of 2019 and has been little changed, on net, since then. The February *Monetary Policy Report* discusses the recent weakness in manufacturing. Some of the uncertainties around trade have diminished recently, but risks to the outlook remain. In particular, we are closely monitoring the emergence of the coronavirus, which could lead to disruptions in China that spill over to the rest of the global economy.

Inflation ran below the FOMC's symmetric 2 percent objective throughout 2019. Over the 12 months through December, overall inflation based on the price index for personal consumption expenditures was 1.6 percent. Core inflation, which excludes volatile food and energy prices, was also 1.6 percent. Over the next few months, we expect inflation to move closer to 2 percent, as unusually low readings from early 2019 drop out of the 12-month calculation.

The nation faces important longer-run challenges. Labor force participation by individuals in their prime working years is at its highest rate in more than a decade. However, it remains lower than in most other advanced economies, and there are troubling labor market disparities across racial and ethnic groups and across regions of the country. In addition, although it is encouraging that productivity growth, the main engine for raising wages and living standards over the longer term, has moved up recently, productivity gains have been subpar

throughout this economic expansion. Finding ways to boost labor force participation and productivity growth would benefit Americans and should remain a national priority.

Monetary Policy

I will now turn to monetary policy. Over the second half of 2019, the FOMC shifted to a more accommodative stance of monetary policy to cushion the economy from weaker global growth and trade developments and to promote a faster return of inflation to our symmetric 2 percent objective. We lowered the federal funds target range at our July, September, and October meetings, bringing the current target range to 1-1/2 to 1-3/4 percent. At our subsequent meetings, with some uncertainties surrounding trade having diminished and amid some signs that global growth may be stabilizing, the Committee left the policy rate unchanged. The FOMC believes that the current stance of monetary policy will support continued economic growth, a strong labor market, and inflation returning to the Committee's symmetric 2 percent objective. As long as incoming information about the economy remains broadly consistent with this outlook, the current stance of monetary policy will likely remain appropriate. Of course, policy is not on a preset course. If developments emerge that cause a material reassessment of our outlook, we would respond accordingly.

Taking a longer view, there has been a decline over the past quarter-century in the level of interest rates consistent with stable prices and the economy operating at its full potential. This low interest rate environment may limit the ability of central banks to reduce policy interest rates enough to support the economy during a downturn. With this concern in mind, we have been conducting a review of our monetary policy strategy, tools, and communication practices. Public engagement is at the heart of this effort. Through our *Fed Listens* events, we have been hearing from representatives of consumer, labor, business, community, and other groups. The February

Monetary Policy Report shares some of what we have learned. The insights we have gained from these events have informed our framework discussions, as reported in the minutes of our meetings. We will share our conclusions when we finish the review, likely around the middle of the year.

The current low interest rate environment also means that it would be important for fiscal policy to help support the economy if it weakens. Putting the federal budget on a sustainable path when the economy is strong would help ensure that policymakers have the space to use fiscal policy to assist in stabilizing the economy during a downturn. A more sustainable federal budget could also support the economy's growth over the long term.

Finally, I will briefly review our planned technical operations to implement monetary policy. The February *Monetary Policy Report* provides details of our operations to date. Last October, the FOMC announced a plan to purchase Treasury bills and conduct repo operations. These actions have been successful in providing an ample supply of reserves to the banking system and effective control of the federal funds rate. As our bill purchases continue to build reserves toward levels that maintain ample conditions, we intend to gradually transition away from the active use of repo operations. Also, as reserves reach durably ample levels, we intend to slow our purchases to a pace that will allow our balance sheet to grow in line with trend demand for our liabilities. All of these technical measures support the efficient and effective implementation of monetary policy. They are not intended to represent a change in the stance of monetary policy. As always, we stand ready to adjust the details of our technical operations as conditions warrant.

Thank you. I am happy to take your questions.

KROGER-DR-01-003

REQUEST:

Please refer to the following link at cvgairport.com (<https://www.cvgairport.com/about/next/amazon-and-cvg-amazonatcvg>) which discusses the Amazon Air Hub facility currently under construction at Cincinnati/Northern Kentucky International Airport. Will Duke Energy Kentucky be the electric service provider for the Amazon Air Hub facility? If yes, please provide a response to the following (please break out responses by phase of construction if appropriate):

- a. Provide the rate schedule(s) that the Amazon Air Hub facility is likely to be served under.
- b. Provide the expected level of electric consumption for the Amazon Air Hub facility.
- c. Provide the expected commercial operation start date for the Amazon Air Hub facility.
- d. Does Duke Energy Kentucky plan to offer an incentive electric rate? If yes, please describe the rate.
- e. Are revenues and expenses associated with the Amazon Air Hub facility included in the future test year in this proceeding?

RESPONSE:

Duke Energy Kentucky is the electric supplier for the Amazon Air Hub facility.

- a. Objection. This Data Request seeks to elicit information that is irrelevant or otherwise not reasonably calculated to lead to the discovery of admissible

information. It seeks confidential customer-specific information that has independent economic value to the customer and that could be used to the customer's disadvantage by competitors of the customer and is not relevant to this proceeding or likely to lead to the discovery of relevant and admissible evidence.

- b. Objection. This Data Request seeks to elicit information that is irrelevant or otherwise not reasonably calculated to lead to the discovery of admissible information. It seeks confidential customer-specific information that has independent economic value to the customer and that could be used to the customer's disadvantage by competitors and is not relevant to this proceeding or likely to lead to the discovery of relevant and admissible evidence.
- c. The facility is expected to become operational in stages with the first one in July 2020 and the second in January 2021. Full commercial operation is expected in July 2021.
- d. Objection. This Data Request seeks to elicit information that is irrelevant or otherwise not reasonably calculated to lead to the discovery of admissible information. It seeks confidential customer-specific information that has independent economic value to competitors of the customer and is not relevant to this proceeding or likely to lead to the discovery of relevant and admissible evidence. Moreover, this request is further objectionable to the extent it seeks information that is projected by the doctrines of attorney work product. Nonetheless, without waiving said objection and to the extent discoverable, a decision regarding any incentive rate for electric service has not been made. The Company will file any such contracts with the Kentucky Public Service Commission.

- e. Although full operation is not expected until after the Test Period, a portion of the total expected annual revenue from the Amazon facility was included in Schedule M for the Test Period, since there will be some usage associated with the first two phases. Additionally, depreciation expense associated with certain capital projects being executed to support the Amazon Air Hub has been included in the test period.

PERSON RESPONSIBLE:

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