

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF DUKE ENERGY)	
KENTUCKY, INC. FOR AN ADJUSTMENT TO)	CASE NO.
RIDER PMM RATES AND FOR TARIFF)	2024-00191
APPROVAL)	

ORDER

On July 1, 2024, Duke Energy Kentucky, Inc. (Duke Kentucky) filed an application for approval for its Rider Pipeline Modernization Mechanism (PMM) annual projections, charges, and tariff. Duke Kentucky calculated the rates based on an expected effective date of January 1, 2025, but acknowledged that implementation of the rate was contingent on receiving a Certificate of Public Convenience and Necessity (CPCN) for the phase three AM07 pipeline replacement project for which Duke Kentucky was seeking to recover costs in this matter.¹ The CPCN was requested in a separate proceeding.² On July 30, 2024, the Commission suspended Duke Kentucky’s proposed PMM charges on or after August 2, 2024, pending the final Order in this matter. The Commission has not received any notices of placing suspended rates into effect pursuant to KRS 278.190(2) from Duke Kentucky. No requests for intervention were filed in this matter. The case now stands submitted for a decision based on the written record.

¹ Application at 5.

² Case No. 2024-00189, *Electronic Application of Duke Energy Kentucky, Inc. For A Certificate of Public Convenience and Necessity Authorizing the Phase Three Replacement of the AM07 Pipeline* (filed. June 14, 2024).

LEGAL STANDARD

KRS 278.160(1) requires each utility to “file with the commission, within such time and in such form as the commission designates, schedules showing all rates and conditions for service established by it.” KRS 278.160(2) prohibits a utility from charging “greater or less compensation for any service rendered or to be rendered than that prescribed in its filed schedules.” KRS 278.180 prohibits a utility from increasing a rate in its filed schedules without 30 days’ notice to the Commission, or 20 days’ notice upon a showing of good cause.

KRS 278.030(1) states that “[e]very utility may demand, collect and receive fair, just and reasonable rates” for utility service. Pursuant to KRS 278.509, the Commission may allow a utility to recover costs for investment in natural gas pipeline replacement programs that are not recovered in existing rates through a rider if the costs are fair, just and reasonable. The burden of proof to show that an increased rate or charge is just and reasonable shall be upon the utility.³

BACKGROUND

In Duke Kentucky’s last natural gas base rate case, Case No. 2021-00190,⁴ the Commission approved, as modified in the final Order, a Joint Stipulation between Duke Kentucky and the Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General), that included the Rider PMM. The Rider PMM is intended to provide incremental cost recovery for pipeline replacement

³ KRS 278.190(3).

⁴ Case No. 2021-00190, *Electronic Application of Duke Kentucky Energy, Inc. for: 1) An Adjustment of the Natural Gas Rates; 2) Approval of New Tariffs, and 3) All Other Required Approvals, Waivers, and Relief* (Ky. PSC Dec. 28, 2021), Order.

projects necessitated by the Pipeline and Hazardous Materials Safety Administration (PHMSA) regulations for pipeline integrity.

The Joint Stipulation stated that the Rider PMM would use a forecasted 13-month average plant in-service balance, and a return on equity of 9.3 percent to calculate the annual revenue requirement.⁵ The Joint Stipulation further indicated that the Rider PMM will be adjusted annually for pipeline replacement projects necessitated by PHMSA, but that the Rider PMM may not increase natural gas revenues by more than 5 percent per year as measured against the revenues approved in Case No. 2021-00190.⁶ The Joint Stipulation detailed that the Rider PMM would be calculated as a per-bill monthly charge for residential and general service rates and a per Ccf charge for transportation rates.⁷

In Case No. 2022-00084, Duke Kentucky received Commission approval for a CPCN for Phase One of the AM07 pipeline replacement.⁸ Additionally, in Case No. 2022-00229, Duke Kentucky received Commission approval for specific Rider PMM rates in that proceeding.⁹ The Commission also found that Duke Kentucky's Rider PMM rate for 2023 should be trued-up based on the timing of plant additions and retirements in 2023 and revenue collected in 2023, and the true-up should be fully explained and reflected as an under or over recovery when Duke Kentucky calculated its revenue requirement in

⁵ Case No. 2021-00190, Dec. 28, 2021 Order at 5–7.

⁶ Case No. 2021-00190, Dec. 28, 2021 Order at 5–7; Application at 3.

⁷ Case No. 2021-00190, Dec. 28, 2021 Order at 5–7.

⁸ Case No. 2022-00084, *Electronic Application of Duke Energy Kentucky, Inc. for a Certificate of Public Convenience and Necessity Authorizing the Phase One Replacement of the AM07 Pipeline* (Ky. PSC Feb. 24, 2023), Order.

⁹ Case No. 2022-00229, *Electronic Application of Duke Energy Kentucky, Inc. for an Adjustment to Rider PMM Rates and for Tariff Approval* (Ky. PSC May 26, 2023), Order, ordering paragraph 2 and Appendix.

Duke Kentucky's 2025 Rider PMM filing.¹⁰ Additionally, the Commission found that a volumetric-based rate design for Residential and General Service customers should be utilized to more accurately reflect costs.¹¹

In Case No. 2023-00210, Duke Kentucky received Commission approval for a CPCN for Phase Two of the AM07 pipeline replacement.¹² In Case No. 2023-00209, Duke Kentucky's received Commission approval for specific Rider PMM rates that were set out in that proceeding.¹³ The Commission found, however, that Duke Kentucky's proposed Rider PMM rates could not become effective on January 1, 2024, because the Rider PMM rate for Phase Two of the AM07 pipeline replacement project was contingent on Duke Kentucky receiving a CPCN for the project, which was not approved in time for implementation to occur.¹⁴ The Commission noted that Duke Kentucky's proposed Rider PMM rate could not become effective until the Commission entered an order approving the rate.¹⁵ The Commission further determined that the prior year projections should not be updated until the true-up filing in 2025.¹⁶ In that case, the Commission also determined that Duke Kentucky should include a true-up provision in its tariff and specify that the true-up is based on a two-year lag, finding that the true-up was deemed necessary in Case

¹⁰ Case No. 2022-00229, May 26, 2023 Order at 9.

¹¹ Case No. 2022-00229, May 26, 2023 Order at 8.

¹² Case No. 2023-00210, *Electronic Application of Duke Energy Kentucky, Inc. For A Certificate of Public Convenience And Necessity Authorizing The Phase Two Replacement Of The AM07 Pipeline* (Ky. PSC Apr. 2, 2024).

¹³ Case No. 2023-00209, *Electronic Application of Duke Energy Kentucky, Inc. For An Adjustment to Rider PMM Rates And For Tariff Approval* (Ky. PSC Apr. 15, 2024).

¹⁴ Case No. 2023-00209, Apr. 15, 2024 Order at 6.

¹⁵ Case No. 2023-00209, Apr. 15, 2024 Order at 6.

¹⁶ Case No. 2023-00209, Apr. 15, 2024 Order at 6.

No. 2022-00229 to ensure that the rate is reasonable due to the potential timing issues with when the plant will be placed in service and the effective date of the rate.¹⁷ In January of 2025, in Case No. 2024-00189, Duke Kentucky received Commission approval for a CPCN for Phase Three of the AM07 pipeline replacement project.¹⁸ The AM07 pipeline replacement project consists of replacing approximately 14 miles of AM07 in sections over five phases at a current estimated total cost of \$215.9 million.¹⁹

In this application, Duke Kentucky is proposing to recover the incremental costs associated with plant additions related to Phase Three of the AM07 pipeline replacement in 2025. Duke Kentucky proposed the following Rider PMM rates:²⁰

Residential:	\$ 0.12 Per CCF
General Service:	\$ 0.03 Per CCF
Firm Transportation:	\$ 0.00102 Per CCF
Interruptible Transportation:	\$ 0.00115 Per CCF

Duke Kentucky calculated the PMM rates based on a forecasted period ending December 31, 2025, with an expected effective date of January 1, 2025.²¹ Duke Kentucky filed a tariff with its application that listed an effective date of August 1, 2024.²² However,

¹⁷ Case No. 2023-00209, Apr. 15, 2024 Order at 7.

¹⁸ Case No. 2024-00189, *Electronic Application of Duke Energy Kentucky, Inc. for a Certificate of Public Convenience and Necessity Authorizing the Phase Three Replacement of the AM07 Pipeline* (Ky. PSC Jan. 17, 2025).

¹⁹ Application at 3. Case No. 2023-00209, July 3, 2023 Application at 3. In Case No. 2023-00209, Duke Kentucky reported the estimated total project costs to be \$201.6 million; and in Case No. 2022-00229 the estimated total project costs were estimated at \$181.3 million.

²⁰ Application, Exhibit 3 at 2 of 13.

²¹ Application at 5 and Exhibit 3 at 3 of 13.

²² Application, Exhibit 2.

Duke Kentucky acknowledged that the proposed Rider PMM rates were contingent upon it receiving a CPCN for Phase Three of the AM07 project.²³

Duke Kentucky included a true-up for 2023 actual costs and a volumetric-based rate design pursuant to the Commission's final Order in Case No. 2022-00229. Duke Kentucky only updated prior projections for 2023, which were included in the true-up pursuant to the Commission's final Order in Case No. 2023-00209.²⁴ The application for the CPCN for Phase Three was filed June 14, 2024, in Case No. 2024-00189, and the Commission issued the final Order granting Duke Kentucky's request for the proposed project on January 17, 2025.²⁵

DISCUSSION

Duke Kentucky's Rider PMM rates are based on a Rider PMM revenue requirement for 2025 in the amount of \$9,338,357.²⁶ That revenue requirement is based on a 13-month average rate base of \$89,442,665²⁷ including a projected \$44,865,234 in plant additions in 2025 related Phase Three of the AM07 pipeline replacement project.²⁸ In Case No. 2023-00209, the end-of-year 2024 capital additions were forecasted to be approximately \$47.56 million.²⁹ Duke Kentucky provided an end-of-year 2024 actual

²³ Application at 5.

²⁴ Application at 5 and 6.

²⁵ Case No. 2024-00189, Jan. 17, 2025 Order.

²⁶ Application, Exhibit 3 at 2 of 13.

²⁷ Application, Exhibit 3 at 7 of 13.

²⁸ Application, Exhibit 3 at 5 of 13.

²⁹ Case No. 2023-00209, May 26, 2024 Order, Application, Exhibit_3.xlsx, Tab Sch 2.0.

capital additions of approximately \$37.659 million in this case.³⁰ Having reviewed the record, the Commission finds Duke Kentucky's proposed Rider PMM revenue and rates to be reasonable because the rate accurately reflects Duke Kentucky's investment and was calculated in accordance with the orders discussed above.

Duke Kentucky's proposed Rider PMM rates could not become effective on January 1, 2025, as the Rider PMM rate for Phase Three of the AM07 pipeline replacement project was contingent on Duke Kentucky receiving a CPCN for the project, which was not approved at that time. However, Commission's determination in Case No. 2023-00209 proceeding ensures that Duke Kentucky's Rider PMM rates can be placed into effect for a period of time after the proposed January 1, 2025, effective date while still allowing Duke Kentucky to account for any over- or under-recoveries that result from the lag. The final Order in Case No. 2023-00209 determined that Duke Kentucky's calculation of its 2025 Rider PMM rates should be trued-up based on the timing of plant additions and retirements in 2023 and revenue collected in 2023 and include full explanations as to the under or over recoveries accounts.³¹ Therefore, the Commission finds that Duke Kentucky's two-year lag true-up provision should account for any under- or over- collections results from the lag in the effective period.

IT IS THEREFORE ORDERED that:

1. Duke Kentucky's proposed Rider PMM rates are approved.
2. The Rider PMM rates in the Appendix to this Order are approved for service rendered on and after the date of service of this Order.

³⁰ Application, Exhibit_3.xlsx, Tab Sch 2.0.


³¹ Case No. 2023-00209, Apr. 15, 2024 Order at 7.

3. Within 20 days of the date of service of this Order, Duke Kentucky shall file with the Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates, charges, and modifications approved or as required in this Order, and reflecting their effective date and that they were authorized by this Order.

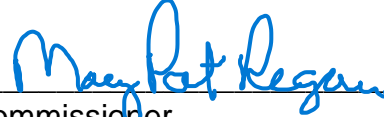
4. This case is closed and removed from the Commission's docket.

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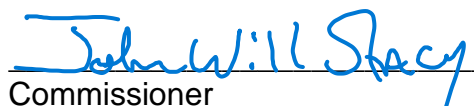
PUBLIC SERVICE COMMISSION



Chairman



Commissioner

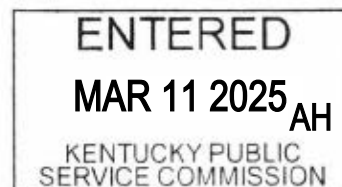


Commissioner

ATTEST:



Executive Director



APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2024-00191 DATED MAR 11 2025

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

Rider PMM Surcharge or Credit

Residential (Rate RS)	\$ 0.12 Per CCF
General Service (Rate GS)	\$ 0.03 Per CCF
Firm Transportation – Large (Rate FT-L)	\$ 0.00102 Per CCF
Interruptible Transportation (Rate IT)	\$ 0.00115 Per CCF

*Debbie Gates
Duke Energy Kentucky, Inc.
139 East Fourth Street
Cincinnati, OH 45201

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

*Larisa Vaysman
Duke Energy Kentucky, Inc.
139 East Fourth Street
Cincinnati, OH 45201

*Minna Sunderman
Duke Energy Kentucky, Inc.
139 East Fourth Street
Cincinnati, OH 45201

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