

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ELECTRONIC EXAMINATION BY THE PUBLIC)	
SERVICE COMMISSION OF THE)	
ENVIRONMENTAL SURCHARGE MECHANISM)	
OF DUKE ENERGY KENTUCKY, INC. FOR THE)	CASE NO.
SIX-MONTH BILLING PERIODS ENDING)	2025-00024
NOVEMBER 30, 2023, NOVEMBER 30, 2024 AND)	
THE TWO-YEAR BILLING PERIOD ENDING MAY)	
31, 2024)	

ORDER

On February 20, 2025, pursuant to KRS 278.183, the Commission initiated a six-month review of Duke Energy Kentucky, Inc.'s (Duke Kentucky) environmental surcharge mechanism (ESM) for the six-month billing periods ending November 30, 2023, November 30, 2024, and the two-year billing period ending May 31, 2024. Duke Kentucky filed prepared testimony¹ pursuant to the February 20, 2025 Order and responded to one request for information from Commission Staff.² There were no intervention requests in this proceeding.

On June 6, 2025, Duke Kentucky requested that this case be submitted for decision by the Commission based on the existing record without an evidentiary hearing.³

¹ Duke Kentucky's Direct Testimony (filed Mar. 14, 2025).

² Duke Kentucky's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Mar. 14, 2025) and (filed Mar. 17, 2025).

³ Duke Kentucky's Request to Submit the Case on the Record (filed June 6, 2025).

Finding good cause, the Commission will grant Duke Kentucky's request and decide this case based on the evidence of record without an evidentiary hearing.

LEGAL STANDARD

KRS 278.183(3) requires, in pertinent part, that:

At six (6) month intervals, the commission shall review past operations of the environmental surcharge of each utility, and after hearing, as ordered, shall, by temporary adjustment in the surcharge, disallow any surcharge amounts found not just and reasonable and reconcile past surcharges with actual costs recoverable pursuant to subsection (1) of this section. Every two (2) years the commission shall review and evaluate past operation of the surcharge, and after hearing, as ordered, shall disallow improper expenses, and to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of each utility.

Additionally, KRS 278.183(5) states

The commission shall retain all jurisdiction granted by this section and KRS 278.020 to review the environmental surcharge authorized by this section and any complaints as to the amount of any environmental surcharge or the incorporation of any environmental surcharge into the existing base rate of any utility.

PROPOSAL

Duke Kentucky's ESM was approved in Case No. 2017-00321⁴ and amended in Case No. 2018-00156,⁵ Case No. 2021-00290,⁶ Case No. 2024-00152,⁷ and Case No. 2025-00002.⁸ As noted above, this review covers the six-month billing periods ending November 30, 2023, November 30, 2024, and the two-year billing period ending May 31, 2024, which included costs incurred from April 2023 through September 2024. This two-month lag is consistent with Duke Kentucky's tariff, which states that the environmental surcharge is to be imposed on customer bills in the second month following the month in which the applicable environmental costs are incurred.

Duke Kentucky reported that its ESM rate base at the end of April 2023 was \$56,133,157 and that its ESM rate base at the end of September 2024 was \$52,701,607.⁹

⁴ See 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).

⁵ See Case No. 2018-00156, *Electronic Application of Duke Energy Kentucky, Inc. for a Certificate of Public Convenience and Necessity to Construct Phase Two of its West Landfill and Approval to Amend its Environmental Compliance Plan for Recovery by Environmental Surcharge Mechanism* (Ky. PSC Dec. 10, 2018).

⁶ See Case No. 2021-00290, *Electronic Application of Duke Energy Kentucky, Inc. for a Certificate of Public Convenience and Necessity to Close Its East Landfill at the East Bend Generating Station and for Approval to Amend Its Environmental Compliance Plan for Recovery by Environmental Surcharge Mechanism* (Ky. PSC Mar. 4, 2022).

⁷ See Case No. 2024-00152, *Electronic Application of Duke Energy Kentucky, Inc. for a Certificate of Public Convenience and Necessity to Convert Its Wet Flue Gas Desulfurization System from a Quicklime Reagent Process to a Limestone Reagent Handling System at Its East Bend Generating Station and for Approval to Amend Its Environmental Compliance Plan for Recovery by Environmental Surcharge Mechanism* (Ky. PSC Jan. 6, 2025).

⁸ See Case No. 2025-00002, *Electronic Application of Duke Energy Kentucky, Inc. for a Certificate of Public Convenience and Necessity to Convert Its Wet Flue Gas Desulfurization System from a Quicklime Reagent Process to a Limestone Reagent Handling System at Its East Bend Generating Station and for Approval to Amend Its Environmental Compliance Plan for Recovery by Environmental Surcharge Mechanism* (Ky. PSC May 29, 2025).

⁹ Duke Kentucky's Response to Staff's First Request, Item 1 at 1.

It calculated its ESM return on rate base during the period to be \$7,008,947.¹⁰ Duke Kentucky also incurred \$56,965,454 in environmental operating expenses, including depreciation expense and the amortization of regulatory assets, during the review period.¹¹

Duke Kentucky's surcharge has a monthly true-up mechanism for differences in revenues used to calculate and bill the monthly factor. Duke Kentucky stated that it did not experience any additional over- or under-recoveries.¹²

Duke Kentucky proposed that it was appropriate in this case to incorporate surcharge amounts found just and reasonable for the two-year billing period into its existing base rates. Duke Kentucky recommended an incremental "roll-in" of \$13,489,347.¹³ Duke Kentucky determined the roll-in amount using the base-current methodology, consistent with current practice and as previously approved by the Commission.¹⁴ The incremental roll-in of \$13,489,347 was determined using the environmental surcharge rate base as of March 31, 2024, and environmental surcharge operating expenses for the 12-month period ended March 31, 2024. With the incremental roll-in of \$13,489,347, the total amount of environmental surcharge revenues to be

¹⁰ Duke Kentucky's Response to Staff's First Request, Item 1 at 4.

¹¹ Duke Kentucky's Response to Staff's First Request, Item 1 at 5.

¹² Duke Kentucky's Response to Staff's First Request, Item 2.

¹³ Duke Kentucky's Response to Staff's First Request, Item 5.

¹⁴ Direct Testimony of Libbie S. Miller (Miller Direct Testimony), at 8. See Case No. 2023-00374, *An Electronic Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Duke Energy Kentucky, Inc. for the Six-Month Billing Periods Ending November 30, 2020, May 31, 2021, November 30, 2021, November 30, 2022, and May 31, 2023, and the Two-Year Billing Periods Ending May 31, 2020, and May 31, 2022* (Ky PSC Dec. 8, 2023).

included in base rates is \$36,024,347.¹⁵ The Commission has reviewed and finds reasonable that \$13,489,347 from the surcharge should be rolled into Duke Kentucky's existing base rates incrementally, resulting in total environmental surcharge revenues in base rates of \$36,024,347.

Duke Kentucky proposed to use the rate of return of 8.822 percent approved in its last base rate case, Case No. 2022-00372, until any change is ordered by the Commission in the current base rate case, Case No. 2024-00354.¹⁶ The Commission finds this approach reasonable.

DISCUSSION

Based on the information provided by Duke Kentucky in this matter, the amounts billed by Duke Kentucky for the six-month billing periods ending November 30, 2023, November 30, 2024, and the two-year billing period ending May 31, 2024 generally appear to be reasonable. Thus, the Commission finds that the amounts billed by Duke Kentucky through its environmental surcharge for the period under review should be approved.

The Commission has reviewed the record and finds Duke Kentucky's recommendation to incorporate additional environmental surcharge amounts into base rates, in this proceeding, just and reasonable.

¹⁵ Duke Kentucky's Response to Staff's First Request, Item 5.

¹⁶ Miller Direct Testimony at 7.

IT IS THEREFORE ORDERED that:

1. Duke Kentucky's request to submit this case for a decision on the evidence of record without an evidentiary hearing is granted.
2. The amounts billed by Duke Kentucky through its environmental surcharge for the six-month billing periods ending November 30, 2023, November 30, 2024, and the two-year billing period ending May 31, 2024, are approved.
3. Duke Kentucky shall utilize a pre-tax rate of return of 8.822 percent until Case No. 2024-00354 has been ordered upon.
4. Duke Kentucky shall roll \$13,489,347 of incremental surcharge amounts found to be just and reasonable herein into its existing base rates.
5. 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, revised tariffs reflecting the changes to its base rates as a result of the roll-in of environmental surcharge amounts described herein.
6. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION


Chairman


Commissioner


Commissioner

ATTEST:


Executive Director



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