

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF DUKE ENERGY KENTUCKY, INC.	)	
FOR A CERTIFICATE OF PUBLIC CONVENIENCE	)	
AND NECESSITY AUTHORIZING THE	)	CASE NO.
IMPLEMENTATION OF AN ACCELERATED SERVICE	)	2015-00210
LINE REPLACEMENT PROGRAM, APPROVAL OF	)	
OWNERSHIP OF SERVICE LINES, AND A GAS	)	
PIPELINE REPLACEMENT SURCHARGE	)	

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

Duke Energy Kentucky, Inc. ("Duke Kentucky"), pursuant to 807 KAR 5:001, is to file with the Commission the original and two copies in paper medium, and an electronic version of the following information. The information requested herein is due on or before September 17, 2015. Responses to requests for information in paper medium shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

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

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

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

1. Refer to the application, page 6, paragraph 11, and page 8, paragraph 16. Provide, generally, how many of the roughly 35,000 interior natural gas meters in Duke Kentucky's service territory that Duke Kentucky expects to relocate as part of replacing the approximately 10,000 steel and other unprotected metallic service lines that remain part of Duke Kentucky's gas system.

2. Refer to the application, page 7, paragraph 13.

a. Explain whether a customer can refuse replacement and utility ownership of the customer's service line. Explain further whether a customer can refuse the relocation of an interior meter that is discussed in paragraph 16 on page 8.

b. Provide the sheet number of the Duke Kentucky tariff that addresses the company's ownership of customer service lines following replacement. If

no such language exists, provide proposed language for inclusion in the tariff. As an example, First Revised Sheet No. 62 of the tariff of Columbia Gas of Kentucky, Inc. contains the following provision concerning extension of service lines:

With respect to Residential and Commercial Customers that occupy premises already connected to a Company main by a service line, Company shall be responsible for operating and maintaining the Customer Service Line, and when Company determines that replacement of such Customer Service Lines is necessary, Company shall be responsible for installing the service line, and shall thereafter own the service line. If it becomes necessary for Company to replace a service line, Company shall use its best efforts to replace the line, during normal working hours and as soon as practical, after Company is made aware of the need for the replacement of the service line.

c. Provide the average percentage of customer-owned service lines of which Duke Kentucky currently assumes ownership per year.

d. Provide the average percentage of customer-owned service lines of which Duke Kentucky proposes to assume ownership per year.

3. Refer to the application, page 8, paragraph 16.

a. Provide the amount of time Duke Kentucky expects to spend inside the customer's premises and explain how the amount of time was determined.

b. Identify and describe the criteria that will be used to determine where to place a meter being relocated to the exterior of a premise.

c. Provide a detailed breakdown of the incremental cost to relocate an interior meter to the exterior of a premise.

d. Explain whether Duke Kentucky has considered installing Automated Meter Reading meters inside the residences to reduce its meter reading expenses.

4. Refer to the application, page 10, paragraph 23.
  - a. Explain how the replacement percentage of approximately 9.6 percent of existing service lines was determined.
  - b. Provide the number of “total current service leaks on the system” and identify the period of time over which this number was experienced.
  - c. Explain how the reduction of approximately 56.6 percent of current service leaks was determined. Include all relevant spreadsheets, work papers, etc.
5. Refer to the application, pages 10–11, paragraph 24.
  - a. Identify all objective criteria Duke Kentucky will utilize in prioritizing its service line replacement work.
  - b. Explain Duke Kentucky’s process for identifying, scheduling and completing the service line replacement work. Identify how these decisions are made and the individuals involved in this decision-making process.
6. Refer to the application, page 12, paragraph 28.
  - a. Explain why Duke Kentucky proposes five years as the term of the Accelerated Service Line Replacement Program (“ASRP”) when its Accelerated Main Replacement Program (“AMRP”) was implemented with a term of ten years.
  - b. \$50 million is the projection for total expenditures under the ASRP, while absent the ASRP projected expenditures are \$64 million. Provide the projected level of total expenditures for the ASRP if it was implemented over a ten-year term.
  - c. Provide a breakdown of the major components of the costs that make up the \$50 million projection of capital and Operation and Maintenance (“O&M”) expenditures under the ASRP.

d. Explain why Duke Kentucky assumes a 3 percent inflation rate for O&M expenditures under the ASRP.

e. Provide the current projected five-year inflation rate from a governmental source.

7. Refer to the application, pages 17–18, paragraphs 42–44, which describe Duke Kentucky’s plans for making annual filings with the Commission under the proposed ASRP.

a. The filings are proposed to be made on or about October 1, with the intent that the new or updated Rider ASRP charges will become effective the following January 1. Explain why October 1st was chosen as the proposed filing date.

b. Paragraph 7 states that the planned filings will include a “true-up for the current/previous years’ actual expenditures” and will “reflect actual costs incurred as of October 1st and estimated costs for the balance of the year.” Explain whether an earlier date for the annual filings, such as July 1, with a true-up of actual expenditures for the previous calendar year, has been considered by Duke Kentucky.

c. Explain whether the approach mentioned in part b. of this request, which would eliminate the need to estimate a portion of the costs to be trued-up and provide additional time for Commission review and analysis of individual annual filings, would present any problems for Duke Kentucky or is amenable to Duke Kentucky.

8. Refer to the application, Exhibit 3, Scope of Work, page 3 of 8.

a. The first paragraph states that Duke Kentucky “initiated a program in 2013 to replace metallic unprotected services in its Kentucky service territory.” Clarify

when in 2013 this program began and provide the number of services that have already been replaced.

b. Explain why Duke Kentucky is proposing a five-year program in its application, considering the completion year of 2020 reflected in this section.

9. Refer to the application, Exhibit 4, page 35 of 45. Explain whether the 689 service lines of unknown material are proposed to be replaced as part of the ASRP.

10. Refer to the Direct Testimony of Charles R. Whitlock (“Whitlock Testimony”), page 2, lines 15–18, which refers to Mr. Whitlock directing the day-to-day natural gas operations of Duke Kentucky and Duke Energy Ohio, Inc. (“Duke Ohio.”) Explain whether Duke Ohio is implementing or has already implemented a program similar to Duke Kentucky’s proposed ASRP.

11. Refer to the Whitlock Testimony, page 4, lines 16–21.

a. Provide the December 2014 Bill Comparison Report provided by the American Gas Association referenced in the testimony.

b. Identify the Kentucky investor-owned gas utilities to which Duke Kentucky compared its gas delivery rates and the point in time of the comparison.

12. Refer to Whitlock Testimony, page 6, lines 10–14. Provide a general description of the Accelerated Riser Replacement Program that was completed in 2012, including at minimum: (a) the number of years it was in effect; (b) the number of risers that were replaced as part of the program; and (c) the total capital cost of the program.

13. Refer to the Whitlock Testimony, pages 7–8, beginning on page 7 with line 10, and continuing to page 8, line 15. For all references to “Duke Energy” or “Duke Energy’s Gas Operations” rather than “Duke Energy Kentucky” explain whether the

reference pertains to: (a) Duke Ohio; (b) Duke Kentucky and Duke Ohio; or (c) Duke Kentucky.

14. Refer to the Whitlock Testimony, pages 9–10. Describe in detail the safety advantages of relocating interior meters to exterior locations, beyond the improvements to customer satisfaction, convenience, and cost reduction.

15. Refer to the Direct Testimony of Peggy Laub (“Laub Testimony”), Attachment PAL-1, Schedule 1.0, page 2 of 9, which indicates that the ASRP revenue requirement will be allocated among the rate schedules based on the “Weighted Customers – Services” percentages from Duke Kentucky’s 2009 natural gas base rate case, Case No. 2009-00202.<sup>1</sup> Those percentages, according to WPFR-9v-6, page 2 of 27, in Duke Kentucky’s application in that proceeding, were based on the 12-month period ending December 31, 2008.

a. Given the length of time since the “Weighted Customers – Services” used in Case No. 2009-00202 were developed, explain whether Duke Kentucky gave any consideration to using more current data to allocate its ASRP revenue requirement.

b. The numbers of residential and general service customers shown in WPFR-9v-6 in Case No. 2009-00202 were 88,348 and 6,948, respectively, while page 9 of 9 of Attachment PAL-1 shows 90,388 and 6,962 as the corresponding numbers of customers in April 2015, which reflects an increase of more than 2,000 since 2008. Using the number of customers for the 12 months ended in April 2015, provide a more current calculation of “Weighted Customers – Services” percentages.

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

c. Provide a breakdown of the planned 10,000 customer service line replacements by rate schedule.

d. Provide Attachment PAL-1 in Excel format with all cells unprotected and all formulas intact.

16. Refer to the Laub Testimony, Attachment PAL-1, Schedules 2.0 and 2.1. Explain why bonus depreciation was not utilized for depreciation and deferred tax purposes.

17. Refer to the Laub Testimony, Attachment PAL-2, the proposed Rider ASRP tariff, Calculation of Accelerated Service Replacement Rider Revenue Requirement.

a. Explain whether Duke Kentucky is aware that provision c. concerning rate of return was approved for other gas utilities whose pipeline replacement programs were established in the context of base gas rate case proceedings, making those rates of return current for the purposes of reasonable returns on the pipeline replacement programs.

b. Explain why the proposed Rider ASRP revenue requirement calculation includes no reduction for savings in O&M expenses, which is standard in other gas utility pipeline replacement program tariffs.

18. Refer to Direct Testimony of Gary J. Hebbeler ("Hebbeler Testimony"), page 9. Provide a comparison of the estimated cost to relocate interior meters as part of the ASRP and the costs to operate, maintain, inspect, and survey interior meters that would be avoided after relocation.

19. Refer to the Hebbeler Testimony, pages 9–10, and the application, paragraphs 13 and 29.

a. Explain whether Duke Kentucky will be required to purchase any rights-of way or easements in conjunction with the proposed ASRP.

b. If the answer to part a. of this request is affirmative, explain how Duke Kentucky plans to recover such costs.

c. Provide the estimated annual cost of curb-to-meter service line maintenance necessitated by Duke Kentucky's taking ownership of service lines.

d. Explain how Duke Kentucky proposes to recover any costs related to the curb-to-meter maintenance referenced in part c. of this request.

20. Refer to Direct Testimony of William Don Wathen, Jr. ("Wathen Testimony"), the table on page 4. The expense amount shown for 2012 of \$22.4 million is 5.7 percent more than the amount for the next highest year, \$21.2 million in 2014, and 8.7 percent more than the average expense for the five periods other than 2012 shown in the table. The table on page 5 of the Wathen Testimony indicates that the lowest return on equity ("ROE") for any of the six time periods included in the two tables was is 2012. Out of the six time periods, explain why the expense amount, excluding the cost of gas, was the highest in 2012.

21. Refer to the Wathen Testimony, the table on page 5. The last two columns in the table are, respectively, for the 12 months ended December 31, 2014 and the 12 months ended June 30, 2015, which means that the last six months of 2014 are included in the time period represented by each of the two columns. To eliminate the impact of this overlap, provide the ROE for just the six months ended June 30, 2015.

22. Refer to the Wathen Testimony, the table on page 7 that includes ROEs for the same time periods as the table on page 5 of the testimony, adjusted to reflect normal weather during the six periods. The impact of normalizing for weather reduces the ROE in the periods in which Heating Degree Days (“HDD”) were above normal and increases the ROE in the periods in which HDD were below normal, based on the HDD reflected in the chart on page 8 of the testimony. It appears that the decreases in the ROE are consistently greater than the increases, as demonstrated by observing the years 2012 and 2013. Explain why weather normalizing 2012, for which the chart on page 8 shows a negative variance between actual and normal HDD of 702, increases the 2012 ROE by only 36 basis points (from 5.43 to 5.79 percent), while normalizing 2013, for which the chart shows a positive variance between actual and normal of only 143, decreases the 2013 ROE by 106 basis points (from 11.06 to 10.00 percent).

23. Refer to the Wathen Testimony, the chart on page 8. The calculated differences between actual and normal HDD levels for the six time periods shown in the chart match the variance shown in the chart in 2010 but not in the other five periods. Explain why the differences do not match the variances from 2011 to the present.

24. Refer to the Wathen Testimony, the chart on page 9. It shows, for the same six time periods contained in the other tables in the testimony, actual throughput broken down between “Retail” and “Transportation.”

a. Provide the weather-normalized throughput for the six time periods in a table using the same format as in the chart on page 9 of the testimony.

b. Provide a narrative description of the methodology Duke Kentucky uses to weather-normalize throughput that includes, at minimum, its determination of its

base natural gas load, the number of years used to establish normal HDD, and the base temperature used.

c. The “Transportation” throughput shown in the chart reflects continuous increases in every time period from 2010 to the present without the annual variation of the “Retail” category. Clarify the extent, if any, to which the “Transportation” throughput is weather-sensitive.

d. Explain whether Duke Kentucky believes a weather normalization rider would help stabilize its earnings. If not, explain why.

25. Refer to the Direct Testimony of Roger A. Morin Ph.D. (“Morin Testimony”), pages 32–33. Provide the most recent 30-year treasury yield as a basis of comparison to the 4.5 percent risk-free rate estimate.

26. Refer to the Morin Testimony, page 37, lines 6–11, and Exhibits RAM-8 and RAM-9. Confirm that the Exhibits show that since 2007, when the long-term Treasury Bond yield was 4.5 percent, the long-term Treasury Bond yield has been 4.5 percent or above only once, in 2009.

27. Refer to the Morin Testimony, page 38, and Exhibit RAM-6. The average beta shown on page 1 of Exhibit RAM-6 for the natural gas utilities group is 0.79. The average beta shown on page 2 of Exhibit RAM-6 for the combination electric and gas utilities group is 0.74.

a. Confirm that the average of the natural gas utilities group is .785 before rounding, and that the average of the two groups before rounding is 0.763 and not 0.77.

b. Confirm that the beta shown for Duke Energy on page 2 of Exhibit RAM-6 is .60, that only one other utility in either of the two groups has a beta as low as .60, and that no utility in the two groups has a beta lower than .60.

c. Explain why it is reasonable to use the unadjusted average .77 beta in the Capital Asset Pricing Model analysis when the parent company of Duke Kentucky has the lowest beta of all the utility companies in both proxy groups.

28. Refer to the Morin testimony, page 44.

a. Line 8 indicates that the expected market return on aggregate equities is 11.7 percent. Confirm that subtracting the forecast risk-free rate of 4.5 percent from the expected market return results in an implied risk premium of 7.2 percent and not 7.3 percent, as indicated on line 10.

b. Confirm that the average of the historical Market Risk Premium (“MRP”) of 7.0 percent and the corrected prospective MRP of 7.2 percent is 7.1 percent.

c. Provide any revisions necessary to Table 6 of page 60 of the Morin Testimony based on any input corrections noted above.

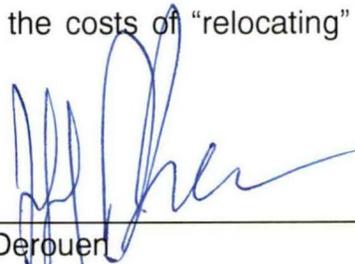
29. Refer to the Morin Testimony, page 60, and Exhibit RAM-9, page 1, footnote 2. State whether the removal of the 9.1 percent “outlying result” from the calculation that produced the average 10.4 percent ROE is supported by the individual January through June 2015 rate case decisions that are reported in the cited Regulatory Research Associates publication.

30. Refer to the Morin Testimony, page 61, and Exhibit RAM-10. Explain whether all the proxy gas utilities and combination electric and gas utilities used in the

ROE analysis have a cost-recovery mechanism (referred to as a risk mitigator). If not, explain whether Duke Kentucky believes the list should be revised to include only those that do have such mechanisms.

31. Refer to the Supplemental Direct Testimony of Gary J. Hebbeler (“Hebbeler Supplemental Testimony”), page 2, the sentence beginning on line 15 which reads, “The Company is requesting authority to replace these natural gas meters through a Certificate of Public Convenience and Necessity (CPCN) and requesting cost recovery as part of a pipeline replacement program.” In the Hebbeler Testimony, page 9, and elsewhere in the Hebbeler Supplemental Testimony, all references to the plans for natural gas meters as part of the ASRP reflect that it is Duke Kentucky’s intent to relocate, not replace, meters. Clarify that the statement cited in this request does not accurately reflect Duke Kentucky’s proposal to the Commission and that it is planning to “relocate” rather than “replace” natural gas meters.

32. Refer to the Hebbeler Supplemental Testimony, pages 5–6, wherein Mr. Hebbeler discusses KRS 278.509 and explains why the cost of relocating meters should be included in the proposed ASRP. KRS 278.509 states, in part, that the Commission “may allow recovery of costs for investment in natural gas pipeline replacement programs which are not recovered in the existing rates of a regulated utility.” Identify what part of KRS 278.509 permits the recovery of the costs of “relocating” pipelines, meters, mains, etc. by a utility.



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cc: Parties of Record

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