COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN ADJUSTMENT OF ITS ELECTRIC AND GAS RATES	)))	**CASE NO. 2014-00372**

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.'S RESPONSE TO LOUISVILLE GAS AND ELECTRIC COMPANY'S FIRST SET OF DATA REQUESTS

1. Please provide all schedules in electronic format with cells intact and all work-papers, source documents, and electronic spreadsheets used in the development of Mr. Baron's Direct Testimony. Please provide all spreadsheets in Microsoft Excel with formulas intact.

RESPONSE:

See attached.

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2. Beginning on page 22, line 18 of his Testimony, Mr. Baron states that "The credit is designed to compensate the customer for taking non-firm service and generally reflects the avoided cost of generating capacity that the Companies would otherwise have to procure (buy, build, etc.) without the customer's agreement to interrupt its CSR load <u>during</u> emergency events on the KU and LG&E systems." (emphasis added)

   a. Define "during emergency events" as Mr. Baron uses this term in his testimony.

   b. Does the language "during emergency events" allow KU/LG&E to call on CSR interruptions before emergency power is purchased in the dispatch stack? Explain your response.

   c. Would the language "during emergency events" require KU/LG&E to call on CSR interruptions after emergency power is purchased in the dispatch stack? Explain your response.

   d. Does it matter whether CSR interruptions are called on either before or after emergency power is purchased by KU/LG&E in the dispatch stack in calculating CSR credits? Explain why this would or would not make a difference.

   e. Is it Mr. Baron's interpretation of the language in the current CSR tariff that he recommends retaining in the tariff that CSR interruptions would be made before emergency power is purchased by KU/LG&E in the dispatch stack or after emergency power is purchased by KU/LG&E?

   f. Are the calculations of the CSR credits that Mr. Baron recommends based on dispatching CSR interruptible load before emergency power is purchased by KU/LG&E in the dispatch stack or after emergency power is purchased by KU/LG&E in the dispatch stack?

RESPONSE:

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a. Mr. Baron's use of the term "emergency events" is the same as the current tariff definition of "system reliability event."

b. Consistent with Mr. Baron's response to part (a) above, if the Company's standard practice pursuant to the existing tariff would permit an interruption without a buy-through (a system reliability event) "*before emergency power is purchased in the dispatch stack,*"Mr. Baron's proposal would continue this procedure.

c. Please see the response to part (b). Mr. Baron is not proposing to modify the procedure that the Companies currently use to curtail CSR load during a system reliability event.

d. Please see response to part (c) above. Mr. Baron assumes that the Companies would attempt to interrupt CSR load prior to purchasing emergency power, to the extent that such interruptions would be consistent with the tariff (i.e., permitting the Companies to interrupt for up to 100 hours during a system reliability event without a buy-through option).

e. See response to part (b) above.

f. The calculations for a CSR credit are based on a reasonable measure of avoided capacity cost, which is a resource planning based calculation. Mr. Baron is not proposing any change to the operational criteria used by the Companies with regard to interruption decisions. Also see response to part (d) above.

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3. On page 23, lines 6-9 of his Testimony, Mr. Baron states that "Of that amount, 275 hours can be interrupted at the sole discretion of the Companies, but the CSR customer has the option to buy-through the curtailment and pay an energy price pursuant to a formula tied to market natural gas prices."

   a. Does the formula for pricing buy-through in the CSR tariff accurately reflect the price of purchased power in the market during emergency events? Explain your response.

   b. Has Mr. Baron performed any analysis that demonstrates that the formula for buy-through in the CSR tariff accurately reflects the cost of purchased power in the market during emergency events. If yes, please provide, in electronic format if available, copies of this analysis.

   c. Under what conditions could the price of purchased power in the market during emergency events be less than the formula for purchasing buy through in the CSR tariff?

RESPONSE:

a. No. It is Mr. Baron's understanding that the pricing formula was developed as a proxy for the price of purchased power, relative to natural gas prices. Since the buy-throughs would not occur during system reliability events, it is Mr. Baron's understanding that the market energy price would not reflect emergency conditions.

b. No.

c. Mr. Baron has not made any analysis of this issue and thus does not know such conditions, including whether such conditions actually exist.

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4. If the current tariff language restricts KU/LGE to calling on CSR interruptions after emergency power is purchased in the dispatch stack, explain the benefit to other customers that Mr. Baron claims.

RESPONSE:

The primary benefit of CSR load is the ability of the Companies to avoid capacity resources that would otherwise have to be procured (built, purchased) if the CSR load were firm load rather than interruptible load. To the extent that CSR load is not operating during system reliability events, the Companies would avoid energy purchases that would otherwise have to be made to serve all of the firm load on the system.

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5. On page 26, lines 5-6 of his Testimony, Mr. Baron states that "CSR customers are not being compensated for this 'energy value'."

   a. Is the capacity value for which CSR customers are compensated greater than the energy value to which Mr. Baron refers in his testimony? Explain your response.

   b. Has Mr. Baron quantified the "energy value" to which he refers in his Testimony? If yes, please provide a copy of this analysis.

   c. Confirm or deny that 100 hours of interruption is about 1% of the hours in a given year.

   d. Is taking service under the CSR tariff voluntary on the part of customers?

   e. Explain the value to KU/LGE if it used the 100 hours of interruptions for which it compensates CSR customers to interrupt CSR customers to achieve fuel savings rather than capacity savings. Also explain why it would be in the Company's interest to do this.

RESPONSE:

a. Mr. Baron has not performed an analysis of the energy value of CSR load. Notwithstanding this, however, Mr. Baron believes that the capacity value is greater than the energy value of CSR load.

b. See response to part (a) above.

c. Confirm. 100 hours is 1.14% of the annual hours during the year.

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d. Yes.

e. Mr. Baron has not made an analysis that would provide this information, specifically. In particular, Mr. Baron does not know the extent to which the Companies would attempt to sell freed-up energy into the market during high price periods through the interruption of CSR load during non-system reliability events. If the Company were to make such sales, and such sales produced margins above production costs, then it is Mr. Baron's assumption that these margins would contribute to off-system sales margins and be treated for ratemaking purposes in the same manner as other off-system sales margins.

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6. On page 27, line 13 of his Testimony, Mr. Baron states that "the Companies treat CSR load as a peaking capacity resource." On pages 30 and 31 of his Testimony, he calculates a CSR credit based on the levelized cost of a combustion turbine as reported by EIA.

a. Can the Company use CSR interruptions as flexibly as it can use a new combustion turbine? Explain your response.

b. Identify any limitations on the use of a new combustion turbine that are comparable to the limitations on the use of CSR interruptions.

RESPONSE:

a. A simple cycle CT is not subject to a maximum number of hours of operation to the same extent that a CSR load can be interrupted. However, for capacity planning purposes, because the CSR load can be interrupted during system reliability events and therefore is not included for capacity planning purposes as firm load, CSR load is a substitute for CT capacity. Moreover, 10 minute notice CSR load provides more flexibility than a CT (other than an aero derivative CT) because it can be interrupted with only a 10 minute notice.

b. See response to part (a) above.

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7. Beginning on page 27 of his Testimony, Mr. Baron calculates CSR credits using the avoided cost the company uses in screening DSM measures and programs.

   a. Is the use of DSM measures limited to "emergency events"?

   b. Would the limitations on the use of DSM programs impact the credits provided to DSM program participants? Explain your response.

   c. Are the limitations on the use of DSM programs more or less restrictive than the limitations on the use of CSR interruptions? Explain your response.

RESPONSE:

a. No, to the extent that the DSM program is a passive program such as energy efficiency.

b. Mr. Baron has not made any analysis of this issue and cannot speculate on the impact of such limitations. Mr. Baron relied on the Companies DSM analysis for the purpose of identifying a reasonable measure of avoided capacity cost.

c. See response to part (b) above.

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8. On page 30 of his Testimony, Mr. Baron discusses Net CONE for PJM CONE Area 3 and uses this to calculate a CSR credit.

a. Identify the geographic areas included in PJM CONE Area 3.

b. What are the most recent MISO capacity auction prices for Indiana and Kentucky and for what years would these capacity auction prices apply?

c. Net CONE is calculated using the levelized cost of a new simple cycle combustion turbine. Can CSR interruptions be used as flexibly as a new simple cycle combustion turbine? Explain your response.

RESPONSE:

a. PJM CONE area 3 includes the following PJM utilities: AEP, APS, ATSI, ComEd, Dayton, DEOK, Duquesne (DLCo), EKPC.

b. MISO Zones 2-7 (Upper Michigan, Eastern Wisconsin, Iowa, Missouri, Indiana, Illinois, Kentucky and Lower Michigan) cleared at $16.75 per MW-day. This auction covered the 2014/2015 MISO planning year.

c. No. A simple cycle CT is not subject to a maximum number of hours of operation to the same extent that a CSR load can be interrupted. However, for capacity planning purposes, because the CSR load can be interrupted during system reliability events and therefore is not included for capacity planning purposes as firm load, CSR load is a substitute for CT capacity. Moreover, 10 minute notice CSR load provides more flexibility than a CT (other than an aero derivative CT) because it can be interrupted with only a 10 minute notice.

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9. Please provide all schedules in electronic format with cells intact and all work-papers, source documents, and electronic spreadsheets used in the development of Mr. Baudino's Direct Testimony. Please provide all spreadsheets in Microsoft Excel with formulas intact.

RESPONSE:

Please see the attached work papers and spreadsheets.

Please note that Value Line reports were not included due to copyright restrictions.

Also, cited pages from *New Regulatory Finance* and *A Random Walk Down Wall Street* were not provided due to copyright restrictions.

The documents cited in footnotes 1 through 4 may be obtained from the web sites shown in the footnotes.

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10. Reference Exhibit No.___(RAB-6):

a. Please provide a list of each firm relied on by Mr. Baudino to develop the median earnings and book value growth rates and the individual growth rate estimates for each firm.

b. Please provide a list of each firm relied on by Mr. Baudino to develop the median dividend yield of 0.76% and the individual dividend yield for each firm.

c. Please provide all workpapers and supporting documents for the Value Line median growth rates and dividend yields.

d. Please indicate how many of the firms included in arriving at the median earnings and book value growth rates pay common dividends.

RESPONSE:

a. The Value Line summary statistics relied upon by Mr. Baudino does not list the names of the firms included in the summary.

b. See response to part a.

c. Please refer to the spreadsheet entitled "Value Line Summary Statistics Feb 25 2015.xlsx" included in the response to Data Request No. 9.

d. The Value Line summary statistics relied upon by Mr. Baudino did not provide the requested information.

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11. Please provide all schedules in electronic format with cells intact and all work-papers, source documents, and electronic spreadsheets used in the development of Mr. Kollen's Direct Testimony. Please provide all spreadsheets in Microsoft Excel with formulas intact.

RESPONSE:

The excel file workpapers contained in Mr. Kollen's revenue requirement model were previously supplied to the parties and posted on the KPSC website dated March 10, 2015. Attached are additional confidential and non-confidential workpapers in electronic format. The confidential workpapers supplied in this response include confidential data summed for both companies relied upon by Mr. Kollen.

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12. Is Mr. Kollen aware that late payment fees were reduced from 5% to 3% for certain rate schedules including residential customers in Case No. 2012-00221?

RESPONSE:

Yes.

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13. Would Mr. Kollen agree that property taxes should not be capitalized for projects with a construction period of less than one year since property taxes are annually assessed for the current year based on January 1 values?

RESPONSE:

No. The question's proposition does not comport with the manner and timing in which property taxes are assessed. CWIP is included in the January 1 valuations. Thus, the property tax expense on that CWIP project should be capitalized until it is completed regardless of whether it is completed in one year or is completed over multiple years. If it is a multi-year project, then the amount of the property tax expense that should be capitalized will be revised each year starting January 1. CWIP projects that are initiated after January 1, but closed to plant on or before December 31 of the same year will not be subject to property taxes at all until the following year. Thus, for those projects, there should be no property tax expense or property tax capitalized until the following year.

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14. Would Mr. Kollen agree that should property taxes be capitalized, a capitalization adjustment is also warranted in addition to the net operating income adjustment?

RESPONSE:

Yes. The effect would be to increase each Company's revenue requirement by approximately $0.2 million, all else equal.

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15. Would Mr. Kollen agree that he did not adjust the gross revenue conversion factor utilized in his proposed cost of capital adjustment shown in Item VII in Exhibit LK-45?

RESPONSE:

Yes, assuming that the reference in the question should have been to Exhibit___(LK-43) for KU. Mr. Kollen does not believe that the gross revenue conversion factor should be adjusted upward to reflect the removal or diminishment of the §199 deduction in conjunction with the reduction in capitalization for the additional bonus depreciation.

Both Companies still qualify for the §199 deduction in the test year based on their studies provided in response to AG 1-27 for KU and AG 1-26 for LG&E. KU's study indicated that its test year revenue requirement would be minimized if it elected to take bonus depreciation in 2014, but not to take bonus depreciation in 2015 and instead maximize the §199 deduction. Mr. Kollen accepted the Company's conclusion and used the reduction to capitalization for the bonus deprecation quantified by KU in response to AG 1-27 that did not reflect any bonus depreciation for 2015. Thus, there should be no concern whatsoever for KU as to whether the GRCF should reflect the full §199 deduction.

LG&E's study indicated that its test year revenue requirement would be minimized if it elected to take bonus depreciation in both 2014 and 2015, although this election would diminish, but not eliminate, its §199 deduction. Such a reduction in the §199 deduction should not be reflected in the GRCF because it is related only to 2015 and is temporary due to the reduction in taxable income in 2015. The §199 deduction is unaffected in 2016 and years thereafter. Any impact on LG&E's income tax expense will be limited to the second half of 2015. Yet, the effect of the GRCF used to calculate LG&E's base revenue requirement will extend years into the future until base rates are reset. It also could affect the GRCF used to calculate the environmental surcharge for years into the future if the Commission were to adjust the GRCF in this proceeding and then use it in the environmental surcharge going forward after December 31, 2015. In short, if this is an issue for LG&E, then it is a temporary issue and the Commission should not modify the GRCF for base and environmental rates that will be in effect after December 31, 2015.

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16. Would Mr. Kollen agree that the forecasted test year gross revenue conversion factor should be increased to reflect the impact of the loss of the Sec. 199 deduction for LG&E as a result of the reduction in LG&E's taxable income attributable to bonus tax depreciation?

RESPONSE:

No. Refer to the response to KU 1-15.

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17. Why do the Operating Income adjustments shown on Page 5 of Mr. Kollen's testimony for extending the amortization period of deferred costs not agree to the amounts presented on Exhibits LK-34 and LK-35? The amounts on page 5 are $(1.183) million for KU and $(0.809) million for LG&E whereas Exhibit LK-34 for KU shows $(1.177) million and Exhibit LK-35 for LG&E shows $(0.805) million.

RESPONSE:

Refer to the explanation on page 6 lines 1-4 of Mr. Kollen's Direct Testimony. See also the revenue requirement models for the companies provided previously to the parties in response to the Companies' informal request. These spreadsheets detail the referenced computations on the tabs "KU Summary Rev Req Adjustments" and "Summary Rev Req Adjustments" for KU and LG&E, respectively.

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18. What is Mr. Kollen's basis for stating that KU's defined benefit pension plan, closed to new employees since the beginning of 2006, will be paying pension payments "up to 60 or more years" and what are the payments he expects over each of those 60 years?

RESPONSE:

Although Mr. Kollen is not familiar with the specific terms of the KU and LG&E pension plans, consider an employee that was 18 years old when he was first employed in 2005 and eligible to participate in the defined benefit pension plan. That employee would be 28 years old in 2015. It is quite reasonable to expect that he or his surviving spouse could receive pension benefit payments starting at retirement and lasting until at least 2075, when the employee would be 88 years old if still alive. To the contrary, it is unreasonable to expect that pension benefits payments would only run another 9 years until the employee reaches the age of 37, long before retirement age.

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19. Please list all companies Mr. Kollen is aware of that amortize actuary loss on defined benefit pension plans over a period of 30 or more years.

RESPONSE:

Mr. Kollen has not performed a survey to determine the range of amortization periods used for GAAP pension accounting purposes. As Mr. Kollen noted in his testimony, GAAP pension accounting is skewed to use significantly shorter amortization periods based on the remaining "service lives" of plan participants, not their remaining actuarial lives. However, the Commission is not bound by GAAP pension accounting for ratemaking purposes, particularly when the amortization period for gains and losses is unduly short and has a significant effect on the revenue requirement that can be minimized by extending the amortization period based on a reasonable assumption for ratemaking purposes.

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20. On page 15 in the first full paragraph of Mr. Kollen's testimony, he quotes actual employees as 1667. Does Mr. Kollen agree that 1667 is the forecasted number? Does Mr. Kollen agree the actual number of employees is 1592?

RESPONSE:

Yes. The actual number of employees was 1,592 in January 2011. This highlights even more the large increase in the number of employees since the last base rate proceeding.