

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

**ELECTRONIC APPLICATION OF LOUISVILLE GAS)
AND ELECTRIC COMPANY FOR A DECLARATORY) CASE NO.
ORDER REGARDING THE PROPER METHOD OF) 2016-00317
MUNICIPAL FRANCHISE FEE RECOVERY)**

**RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
TO
COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION
DATED MARCH 24, 2017**

FILED: APRIL 7, 2017

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Commission Staff's Initial Request for Information
Dated March 24, 2017**

Case No. 2016-00317

Question No. 1

Responding Witness: Lonnie E. Bellar

Q-1.

- a. Explain whether LG&E acquired the existing natural gas rights of way ("ROW") for pipelines, through financial payments or other arm's-length transactions, from the former city of Louisville.
- b. If the answer to part a. is yes, explain whether LG&E has those ROW agreements with the former city of Louisville, and whether the acquisition of the ROW was a one-time payment for as long as those pipelines within the ROW are in service.

A-1.

- a. No. LG&E did not acquire access to the public rights-of-way through easements, one-time payments, or other arm's length transactions with the former city of Louisville. Instead, LG&E obtained access through remittance of franchise fees as required by the former city of Louisville. The only easements or other one-time payments LG&E has made to Louisville Metro to site utility facilities have pertained to access across land owned by Metro Louisville located outside of the Louisville Metro rights-of-way.
- b. See the response to part a.

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Question No. 2

Responding Witness: Lonnie E. Bellar

- Q-2. Refer to the Testimony of Lonnie E. Bellar ("Bellar Testimony"), page 9, lines 12-14. State the total franchise fee that would result from using \$.0258 per Mcf.
- A-2. The total estimated franchise fees that would result from using \$.0258 per Mcf on *all* Mcf delivered versus Mcf delivered in the City of Louisville franchise area is listed below. See also the response to Question No. 3.

Month	All Natural Gas Mcf Deliveries		Natural Gas Mcf Deliveries in City of Louisville Franchise Area	
	Natural Gas Mcf Deliveries	Estimated Franchise Fee at \$0.0258/Mcf	Natural Gas Mcf Deliveries	Estimated Franchise Fee at \$0.0258/Mcf
Jan-16	6,295,241	\$ 162,417	4,420,195	\$ 114,041
Feb-16	7,345,406	\$ 189,511	5,271,542	\$ 136,006
Mar-16	5,331,643	\$ 137,556	3,891,516	\$ 100,401
Apr-16	3,494,676	\$ 90,163	2,501,378	\$ 64,536
May-16	2,289,398	\$ 59,066	1,655,716	\$ 42,717
Jun-16	2,057,641	\$ 53,087	1,507,412	\$ 38,891
Jul-16	1,784,864	\$ 46,049	1,335,704	\$ 34,461
Aug-16	1,714,365	\$ 44,231	1,283,818	\$ 33,123
Sep-16	1,688,113	\$ 43,553	1,245,210	\$ 32,126
Oct-16	1,739,394	\$ 44,876	1,241,645	\$ 32,034
Nov-16	2,534,536	\$ 65,391	1,826,469	\$ 47,123
Dec-16	5,466,958	\$ 141,048	3,828,029	\$ 98,763
Total	41,742,237	\$ 1,076,950	30,008,634	\$ 774,223

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Question No. 3

Responding Witness: Lonnie E. Bellar

- Q-3. Refer to the Bellar Testimony, page 14, lines 5-9. Explain the basis of LG&E's understanding that Metro Louisville wants to base the franchise fee on the percentage of natural gas delivered to each customer that passed through Louisville Metro's rights-of-way.
- A-3. LG&E's understanding that Louisville Metro seeks to base the Franchise Fee on individual usage of natural gas arose from statements and filings of Louisville Metro. Louisville Metro's complaint filed in Case No. 2016-00347 stated that because the "franchise fee is based on the volume of gas passing through the pipes located in the Louisville rights-of-way," "each customer can be charged the franchise fee based on individual usage."¹ Further, Councilman Blackwell stated in Louisville Metro's direct testimony: "By charging a fee based on usage of gas, the proper amount of the fee can be allocated to each individual LG&E gas customer."²

LG&E's understanding is also based on Section 11(a)(2) of the Franchise Agreement, which says:

The Franchise Fee remitted to Louisville Metro may be based, at the discretion of the Metro Council, throughout the term of the Franchise, on: ... (2) each thousand cubic foot (mcf) of gas utilizing the Company's pipe, pipeline, main, pumping stations or other means to transport, whether for transmission or distribution, for the purpose of providing natural gas service to customers as a local distribution company within the Franchise Area (using the measured mcf of gas delivered to customers as a substitute). Basing any portion of the Franchise Fee upon gas delivered to all LG&E customers does not equate to approval or acquiescence by the Company that customer use outside of the Franchise Area is reasonably related to the calculation of the Franchise Fee for Louisville Metro....

¹ *In the Matter of: Louisville/Jefferson County Metro Government v. Louisville Gas and Electric Company*, Case No. 2016-00347, Complaint at 8, Paragraph 37 (Sept. 19, 2016).

² Blackwell Testimony at 2.

LG&E recognizes that if Louisville Metro assesses a franchise fee in a reasonable *amount*, LG&E must collect and remit that fee to Louisville Metro. But LG&E included the last sentence in the Franchise quoted above to memorialize and preserve its position that including in its *calculation* of the franchise fee volumes of gas delivered to customers outside the Franchise Area is not a reasonable method because there is no nexus between customer use outside the Franchise Area and the value of access to rights-of-way inside the Franchise Area.

Furthermore, LG&E has no way of calculating the volume of gas passing through its transmission and distribution system within the Franchise Area, which is why the amount delivered to customers, which is metered, is used as a substitute in the parenthetical quote above.

LG&E believes Louisville Metro is basing calculation of the Franchise Fee upon the amount of gas delivered to all LG&E customers because *The Courier-Journal* reported in an August 26, 2016 article that the amount of the “expected Franchise Fee” would be \$1.05 million. That figure is consistent with calculating the Franchise Fee based on the total volume of gas delivered to all LG&E customers, as opposed to the volume delivered to customers within the Franchise Area. (The total volume delivered to all LG&E gas customers for the 12-month period ending May 2016 was 41,021,512 Mcf, which when multiplied by \$0.0258 yields \$1,058,355.02.)