

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

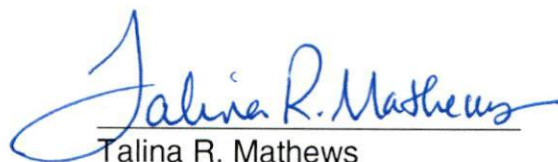
ELECTRONIC APPLICATION OF LOUISVILLE)
GAS AND ELECTRIC COMPANY FOR AN)
ADJUSTMENT OF ITS ELECTRIC AND GAS) CASE NO. 2016-00371
RATES AND FOR CERTIFICATES OF PUBLIC)
CONVENIENCE AND NECESSITY)

NOTICE OF FILING

Notice is given to all parties that the unofficial stenographic transcript of the evidentiary hearing conducted on May 9, 2017, and May 10, 2017, in this proceeding as transcribed by the court reporter has been filed into the record of this proceeding.

A copy of this Notice has been electronically served upon all parties listed at the end of this notice. Parties desiring an electronic copy of the stenographic transcript may submit a written request by electronic mail to pscfilings@ky.gov.

Done at Frankfort, Kentucky, this 30th day of May 2017.



Talina R. Mathews
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED MAY 30 2017

cc: Parties of Record

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY)
UTILITIES COMPANY FOR AN ADJUSTMENT) Case No.
OF ITS ELECTRIC RATES AND FOR) 2016-00370
CERTIFICATES OF PUBLIC CONVENIENCE)
AND NECESSITY)

and

ELECTRIC APPLICATION OF LOUISVILLE)
GAS AND ELECTRIC COMPANY FOR AN) Case No.
ADJUSTMENT OF ITS ELECTRIC AND GAS) 2016-00371
RATES AND FOR CERTIFICATES OF PUBLIC)
CONVENIENCE AND NECESSITY,)

PUBLIC HEARING

DATE: MAY 9, 2017

DAY 1 OF 2

REPORTER: DIANA HALL LOEB, FPR, CSR

Sworn Testimony Court Reporting

Lexington, Kentucky

A P P E A R A N C E S

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PUBLIC SERVICE COMMISSION COUNCIL MEMBERS:

Michael J. Schmitt, Chairman

Robert Cicero, Vice Chairman

Daniel L. Logsdon, Jr., Commissioner

- - - - -

APPLICANT STAFF: As recorded on the record

COMMISSION STAFF: As recorded on the record

INTERVENORS: As recorded on the record

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1 (Thereupon, the hearing commenced at 12:57
2 p.m.)

3 MR. SCHMITT: You may be seated. Thank
4 you. I apologize for making you stand.

5 We are now on the record. My name is
6 Michael Schmitt. I'm Chairman of the Kentucky
7 Public Service Commission. With me today
8 seated to my right is Robert Cicero,
9 Vice-Chairman, and to the left, Commissioner Daniel
10 Logsdon.

11 If anyone has a cellphone, pager or any
12 device which would make a noise and disturb the
13 proceeding, please turn it off or down to low
14 or buzz during the course of the proceeding.
15 If you need to make a telephone call, please
16 step outside in the hall to do it. As most of
17 you know, the building door is locked. So make
18 sure there is somebody at the desk that knows
19 or you may not be able to get back in if you
20 need to come back.

21 After our conference, I guess, our
22 informal conference, which was on the record in
23 late March and early April, we learned that
24 there was a problem with people hearing behind
25 the microphones when people speak or spoke,

1 their back was turned. So what we have done in
2 attempt to solve that problem, is we have two
3 speakers in the back corner of the room to aid
4 people in the audience, the attorneys, parties
5 and anyone else who cares to be here. In
6 addition, we have, I think, five or six
7 headsets here, which are keyed into the system.
8 So if anyone would like assistance in hearing
9 by using a headset, they are on table at the
10 back of the hearing room and please feel free
11 to utilize those if need be.

12 Because of the number of people we have
13 and the number of interested parties, it's
14 impossible for counsel, all counsel of record
15 to be present in front. So would -- if any of
16 attorneys for the other Intervenors, when you
17 are asked to identify yourselves, or if you
18 would like to come forward and address the
19 Commission, or other counsel or ask questions
20 of witness, please come forward to the
21 microphone that is just at the back of counsel
22 for the Attorney General's office, and identify
23 yourselves and speak up.

24 Otherwise, if you try to speak from where
25 you are seated, there is a substantial chance

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1 that you might not be on the record. Okay?
2 So, I will try to remind you. But in case I
3 forget please somebody else do that, because we
4 want your comments I am sure on the record.

5 There have been, I think, two rooms
6 reserved for the parties, I think for the
7 Attorney General's office and for Kentucky
8 Utilities and LG&E. And I don't know if you
9 know where the rooms are --

10 APPLICANT STAFF: No, I don't know.

11 MR. SCHMITT: I believe we have the list
12 somewhere, but -- I am not sure that I have it.
13 But Patsy -- here it is. No. Not it. There
14 are two rooms however. And at a recess, Patsy,
15 the receptionist will know which room that you
16 will be going in. I believe the guess is that
17 the Applicants, LG&E and KU, have this back
18 hearing room. The second hearing room is the
19 for the Attorney General's office who will have
20 the conference room just across the hall.

21 Unfortunately, we don't have enough space
22 for anyone else. If you like a room, we will
23 have some vacancies and somebody will show you
24 to the room if any party would like to do that.

25 Okay. The nature of the hearing today is

1 for the purpose of taking evidence on
2 cross-examination in Case Number 2016-00370,
3 Application of Kentucky Utilities Company for
4 an adjustment of its electric rates and for
5 certificates of other convenience and
6 necessity. Combined with Case Number
7 2016-00371, Application of Louisville Gas and
8 Electric Company for an adjustment of its
9 electric and gas rates and for certificate of
10 public convenience and necessity.

11 As I understand it, perhaps at least
12 Kentucky Utilities and Louisville Gas and
13 Electric's application for request for public
14 convenience, certificate of public convenience
15 and necessity has been withdrawn at least in
16 part; is that correct?

17 APPLICANT STAFF: Yes, Your Honor, it
18 is -- Louisville Gas and Electric Company and
19 Kentucky Utilities have occasioned for the
20 certificate of public convenience and necessity
21 for the AMS meters is proposed to be withdrawn
22 per the stipulation. Their application for the
23 certificates of public convenience and
24 necessity for the DA CPCN is not. And the
25 stipulation recommends that the Commission

1 grant the CPCN for the DA project for the
2 companies.

3 MR. SCHMITT: Thank you.

4 Now, as the Commission understands it, all
5 parties have entered into a stipulation and
6 recommendation that the Commission approve a
7 settlement that was reached between the
8 Kentucky Utilities and Louisville Gas and
9 Electric and all of the Intervenors; is that
10 correct.

11 APPLICANT STAFF: Yes, Your Honor. The
12 settlement consists of two stipulations
13 tendered and filed with the Commission on two
14 separate days. The parties -- a large amount
15 of the parties entered into the first
16 stipulation which is the revenue requirement
17 and cost of service issues. Second stipulation
18 concerns only the pole attachment tariff. And
19 Cable Telecommunications Association and AT&T.
20 They are not in conflict and they are presented
21 in joint.

22 MR. SCHMITT: We have read both
23 stipulations and there, as I understand it,
24 there is no objection by any party to either
25 agreement with respect to the other. So the

1 parties Bell South and the other parties that
2 have an interest in the poles have no objection
3 to the balance of any settlement involving the
4 other Intervenors.

5 APPLICANT STAFF: That's correct, Your
6 Honor.

7 MR. SCHMITT: And vice versa.

8 APPLICANT STAFF: That would be correct.

9 MR. SCHMITT: If anybody represents any of
10 the Intervenors, please step forward now and
11 let us know on the record.

12 I saw that the stipulations that were
13 filed did not restrict the right of counsel for
14 any of the parties to ask question or
15 cross-examination. So anybody that wants to,
16 any attorney that represents an Intervenor that
17 would like to ask a question, you may obviously
18 do so and would be given opportunities to do
19 it.

20 So we are kind of informal on that basis.
21 Normally, if we were in court I would say if
22 you did not cross-examine on the first round
23 and you came back to a redirect and a recross,
24 I might say, no. But everybody will have a
25 chance to ask any question if they want to ask.

1 But -- and if I don't see you, raise your hand
2 or speak up or something, so that we can make
3 sure everybody has an opportunity to exercise
4 their right to ask questions.

5 Now, I will say this on behalf of the
6 Commission to counsel and Louisville Gas and
7 Electric and Kentucky Utilities and all the
8 parties. We really appreciate the thorough
9 manner in which you prepared the proposed
10 settlement agreements and the way basically you
11 addressed all the issues that we asked you to
12 do. So, thank you very much from the
13 Commission to all of you participating in that
14 process.

15 At this time, would counsel for each of
16 the parties to identify themselves and their
17 clients that each represent starting with
18 counsel for LG&E, and KU, and moving over to
19 the Attorney General's office and then I have a
20 list but since we -- I am not sure it's
21 complete. One list I have 13 Intervenors and
22 the other 15. So we'll just try to get through
23 it as best we can so everybody -- we can
24 identify everyone who is here.

25 Mr. Riggs, would you please identify

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1 yourself, your co-counsel and your clients.

2 APPLICANT STAFF: Yes, Your Honor, thank
3 you. Kendrick Riggs, from the firm Stoll,
4 Keenon and Ogden, representing Louisville Gas
5 and Electric Company and Kentucky Utilities
6 Company. Also appearing as co-counsel with me
7 are my colleagues from my firm, Lindsey Ingram,
8 Duncan Crosby and Monica Braun. Ms. Allyson
9 Sturgeon, who is Senior Partner Counsel for
10 LG&E Services Company.

11 MR. SCHMITT: Thank you.

12 MR. CHANDLER: Kent Chandler and Larry
13 Cook on behalf of the Office of Attorney
14 General.

15 MR. KURTZ: Thank you, Your Honor Mike
16 Kurtz and Jody Cohn for Kentucky Industrial
17 Utility Customers. The members of KIUC
18 participating in this case relative to need are
19 AAK USA, Carbide Industries, SemEx, Ford Motor
20 and the Chenmores Company. And the members of
21 KIUC participating who are served by KU are Air
22 Liquid, Industrial Gas, Alliance Pole, Clopay
23 Plastic, Corning Incorporated, Dow Corning,
24 Longevity, LexMark, North American Stainless
25 and Toyota.

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1 MR. SCHMITT: Thank you. I have a list.
2 Maybe it would be best to go down the list as
3 it's presented here to me. Is anyone here on
4 behalf of Kroger Company.

5 Let me get Mr. Childers here. We can't
6 let the Sierra Club go unnoticed.

7 MR. CHILDERS: Thank you, Mr. Chairman.
8 Joe Childers of Joe F. Childers and Associates
9 in Lexington, Kentucky. I have with me Casey
10 Roberts, who is seated up front here. She is
11 with the Sierra Club. Matthew Miller, who is
12 back here, is with the Washington D.C. office
13 and my associates Bethany Baxter is here and we
14 have entered an appearance for her.

15 MR. SCHMITT: Thank you.

16 Okay. Kroger.

17 MR. MOORE: Mr. Chairman, Robert Moore.

18 MR. SCHMITT: Mr. Moore, you need to come
19 forward because of our hearing system problems.

20 MR. MOORE: Mr. Chairman, Members of the
21 Commission, Robert Moore with Stites and
22 Harbison representing The Kroger Company.

23 MR. SCHMITT: Thank you.

24 Association of Community Ministries.

25 MS. KILKELLY: Thank you Lisa Kilkelly

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1 from the Legal Aid Society, representing
2 Association of Community Ministries, and we're
3 an Intervenor in the LG&E case only.

4 MR. SCHMITT: Metro Housing Coalition.

5 MR. FITZGERALD: Mr. Chairman, Tom
6 FitzGerald representing Metropolitan Housing
7 Coalition in the LG&E case only.

8 MR. SCHMITT: Walmart Stores East LP and
9 Sam's East, Inc.

10 MR. HEATH: Mr. Chairman, I'm Mark Heath
11 and Barry Thomas from Stone, Thomas and Dowel,
12 representing both Walmart Stores East and Sam's
13 East, Inc.

14 MR. SCHMITT: United States Department of
15 Defense and all other federal executive
16 agencies.

17 MS. MEDLYN: Chairman and Commissioners,
18 I'm Emily Medlyn representing the Department of
19 Defense. I also have co-counsel Houston Parish
20 here.

21 MR. SCHMITT: Kentucky League of Cities.

22 MR. DUTTON: Good morning. My name is
23 Greg Dutton. I'm with the firm Goldberg,
24 Simpson and I'm here representing The Kentucky
25 League of Cities, in the Kentucky Utilities

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1 case. Since I'm up here, I would also like to
2 introduce myself as representing Louisville
3 Metro in the LG&E case. I have with me today
4 Jeff Durwin who is here from the Louisville
5 Jefferson County, County Attorney's Office. He
6 is with Louisville Metro as well.

7 MR. SCHMITT: Kentucky School Board
8 Association.

9 MR. MALONE: Good afternoon, Mr. Chairman
10 and Commissioners. Matt Malone with the law
11 firm of Hurt, Deckard & May out of Lexington,
12 representing Kentucky School Board Association
13 and I have Mr. Ron Wilhack with me on behalf of
14 the School Board as well. Thank you.

15 MR. SCHMITT: Kentucky Cable
16 Telecommunications Association.

17 MR. SILKY: Good afternoon, Mr. Chairman,
18 Members the Commission. I'm Larry Silky. With
19 me is Randy Haliston, Executive Director of
20 Kentucky Cable Telecommunication Association.
21 And with your permission, Mr. Chairman, I would
22 like to submit the Affidavit of Paul Werner who
23 had to be in Ireland today on behalf of the
24 Association.

25 MR. SCHMITT: Please step forward and we

1 can file that with the clerk.

2 If we need copies, we can mark with an
3 Exhibit and then at a break, we can give it to
4 our videographer.

5 (Thereupon, a document was marked Evidence
6 Exhibit Number 1.)

7 It's actually being filed in lieu of
8 witness testimony; is that correct?

9 APPLICANT STAFF: It's in lieu of
10 counsel's affirmation.

11 MR. SCHMITT: Go ahead and file it in the
12 record then.

13 J.B. Swift and Company.

14 THE WITNESS: Good afternoon,
15 Mr. Chairman, Commissioners, Dennis G. Howell,
16 II, of Howell Law, on behalf of J.B. Swift
17 Company.

18 MR. SCHMITT: Bell South Communications
19 LLC d/b/a AT&T Kentucky.

20 MS. WINN: Good afternoon, Mr. Chairman,
21 Commission, Cheryl Winn of Waters Law Group on
22 behalf of AT&T Kentucky. With me is
23 co-counsel Patrick Turner and we have the
24 Executive Director Tony Taylor.

25 MR. SCHMITT: Is there any other party or

1 counsel for a party that we overlooked.

2 Oh, Lexington Fayette. I'm sorry.

3 MS. SKIDMORE: Good afternoon,
4 Mr. Chairman and Commissioners. My name is
5 Iris Skidmore and I represent the Community
6 Action Council for Lexington Fayette, Urban,
7 Harrison and Nicholas counties, and we are in
8 the KU matter.

9 MR. SCHMITT: Okay. Mr. Gardner.

10 MR. GARDNER: Thank you, Mr. Chairman,
11 Commissioners. My name is Jim Gardner and with
12 me today is Todd Osterloh, with the law firm of
13 Sturgill, Turner, Barker & Malone. We
14 represent Lexington Fayette Urban Government in
15 the Kentucky Utilities case. Thank you.

16 MR. SCHMITT: Okay. Is there anyone else?
17 According to the list that ought to include all
18 of the Intervenors. If there is anyone we've
19 overlooked, now is the time to step up.

20 Mr. Riggs has noticed this proceeding.
21 Has it been filed in the record?

22 APPLICANT STAFF: Yes, Your Honor, it has
23 been filed in the record.

24 MR. SCHMITT: I notice that there are one
25 or more confidentiality motions pending which

1 have not been ruled upon at this time, but will
2 be ruled upon as soon as possible after the
3 hearing.

4 During the course of the hearing, if
5 counsel for any of the parties believes that
6 confidential materials not be the subject of
7 testimony or otherwise disclosed, will you
8 please come forward and let me know and we will
9 then conduct that part of the hearing off of
10 the public record.

11 I know there has also been one other
12 motion filed by Kentucky Utilities and LG&E
13 asking that, I think, a post-settlement or
14 stipulation testimony in support of the second
15 stipulation and recommendation be filed of
16 record; is that correct?

17 APPLICANT STAFF: Yes, Your Honor.

18 MR. SCHMITT: And that will be and has
19 been sustained and so that will be hence forth
20 filed with the record.

21 Is there any other motion or are there any
22 other motions that need to be addressed at this
23 time?

24 APPLICANT STAFF: No, Your Honor.

25 MR. SCHMITT: All right. Since the public

1 is allowed to comment, I will in just a second
2 ask for any members of the public who wish to
3 step forward and speak, to please do so. Or in
4 the alternative, if they have something in
5 writing to file, they can bring it forward and
6 put it in the record.

7 I will advise counsel for all of the
8 parties that late yesterday afternoon our mail
9 was delivered here and I received a letter from
10 Mr. William Wheeler who was at the Lexington
11 meeting and provided public comments and he
12 submitted just a letter along with a chart.
13 And the letter just identifies the chart as
14 something that he wished to present and it has
15 been filed in the record as of today. So, I
16 don't know if we can get everyone a copy. I
17 was advised before the hearing that Mr. Wheeler
18 was here and would like to speak.

19 MR. WHEELER: Yes.

20 MR. SCHMITT: Are you here?

21 MR. WHEELER: Yes.

22 MR. SCHMITT: Would you please come
23 forward if you like to address --

24 MR. WHEELER: Thank you very much, Mr.
25 Chairman. William Wheeler. I live in

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1 Lexington, 187 Jesse Lynn drive. I am here for
2 a special subject that came upon my agenda
3 recently. In February, I looked at the insert
4 that came in my February billing from Kentucky
5 Utilities Company, KU, henceforth, which
6 strangely it's very rare for me to look at any
7 of these inserts, but I did this one. And I am
8 glad I did.

9 The headline said, "A service charge with
10 benefits?" Then it had a little image that
11 showed a five percent savings. Well, that
12 little oddity grabbed my attention. And I did
13 some basic mathematics and I applied the KU
14 recommendation or the KU request for a \$22
15 fixed charge. They called it a basic charge.
16 That's euphemism for a fixed charge and lower
17 energy rate. Well applied those to my own 12
18 months usage and I found out that maybe what I
19 was reading might have been a corporate double
20 speak.

21 I found out -- well, first I looked at
22 what they claimed was average usage, which
23 computes to 14,000-kilowatt hours a year. And
24 that average usage using their requested rates,
25 would generate 6 percent increase using my

1 usage monthly figures.

2 I then looked at the above average usage,
3 18,000, and that would give KU four percent
4 increase instead of six. I looked at 22,000
5 usage and that would give them 2.6 percent
6 increase instead of six. Then I looked at
7 below average where my usage is, 10,000 --
8 remember average is 14. Ten thousand usage
9 would have given KU an increase of 9.6 percent
10 instead of six. And then 6,000 usage would
11 give them 17 percent increase, instead of six.

12 So it became obvious to me and I am sure
13 it would to most people in here, if not all,
14 that that fixed charge is detrimental to the
15 below average users and gives a benefit to the
16 above average users. So I knew that was wrong.

17 And incidentally, the -- their insert said
18 that the average rate increase monthly would be
19 about seven-dollars. The 6,000 usage instead
20 of \$7.00 would be \$9.40. And the 22000 usage
21 would be \$4.50.

22 So what appears to me is that a fixed
23 charge on utility bills is very detrimental to
24 the low usage customers and should not be
25 allowed. Of course, KU did reduce their

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1 request from \$22 to \$12.25, which is a dollar
2 and a half increase. Now, I realize the issue
3 now is a dollar and a half in regards to the
4 fixed charge. But I think the Commission
5 should consider that any dollar in the fixed
6 charge is detrimental to the low usage
7 customers. And a lot of low usage customers
8 have invested in solar energy and this is a
9 smack in the face to them. And there are
10 the -- if their average is 14,000, then many
11 that -- probably half of their customers are
12 going to be subsidizing a high usage. I
13 repeat: The low usage customers will be
14 subsidizing the high usage customers.

15 And I have one more set of facts to
16 mention to you. The combined usage rate, I
17 computed what the combined usage rate would be,
18 taking the fixed charge and the kilowatt charge
19 by the kilowatt usage. And for the -- their
20 November process, it would have been 12 cents,
21 12.9 cents. And the -- for the low usage, the
22 high usage would be .095 cents. That would be
23 a combined rate. And the monthly bill increase
24 using their initial request would be \$9.40
25 increase and \$3 23 increase for the high.

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1 Now I'm about finished. So, my point is
2 the \$1.50 is -- is, I hope something that you
3 will lean on heavily. You do -- you have a
4 code and that is any increase must be just,
5 must be fair and reasonable. Well, a fixed
6 charge on a utility bill, affix none of those.
7 And while a dollar and a half might be easy to
8 approve, I suggest that you should not because
9 it's obvious to me that KU eventually wants to
10 get up, get the fixed charge on up to \$20 and
11 so.

12 In fact two years ago, they requested the
13 charge go to \$18. And for some lucky reason,
14 lucky for many of their users, that was not
15 approved. And I suggest that a dollar and a
16 half today should not be approved.

17 Again, it will become one step and the
18 next increase they will want more and more and
19 the fixed charge is detrimental to low usage
20 customers. I thank you much.

21 MR. SCHMITT: Thank you.

22 Is there any other member of public who
23 would like to come forward and address the
24 Commission or provide a letter or something in
25 writing? No one stepping forward, we will move

1 on.

2 Counsel, are there any documents which you
3 intend to introduce or file within the course
4 of testimony here today?

5 APPLICANT STAFF: No, Your Honor. We have
6 filed all the documents that we intend to.

7 MR. SCHMITT: Okay. I'm sorry
8 Commissioner Cicero. I had everyone introduce
9 themselves, all the intervenor, except for the
10 staff. And I apologize to the staff for that.

11 MR. NGYUEN: Thank you, Mr. Chairman.
12 Guang Ngyuen, Richard Raff and Nancy Vinsel on
13 behalf of the staff.

14 MR. SCHMITT: I kind of worked out a
15 schedule for the hearing that I would like to
16 bring to your attention. We may, obviously
17 depending on circumstance, have to alter it
18 slightly, and one person here indicated they
19 might need a break every hour and a half for
20 medical reasons and we may have to do that.
21 But the schedule that we envisioned here was
22 starting today at one o'clock, with a 15 minute
23 or so recess between 3:00 and 3:30, with the
24 evidence to conclude by 5:00 or 5:30. We start
25 tomorrow at 9:00, probably break at 10:30.

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1 We'll go to lunch at 12 or 12:30 and break in
2 the afternoon about 3:30 and end around 5:00 or
3 5:30.

4 I suspect we will probably be finished by
5 tomorrow, so we do not have to go a following
6 day. If we do, we will go by the same
7 schedule. But it will become apparent to us,
8 what we know from the record and from what
9 staff counsel intends to do, that we will
10 probably not be as long as people originally
11 believed. Okay.

12 Now, Mr. Riggs, you, on behalf of your
13 clients submitted a list of witnesses and an
14 order -- and listed them in order perhaps of 13
15 potential witnesses.

16 APPLICANT STAFF: Yes, Your Honor.

17 MR. SCHMITT: The staff, I think, would
18 like for you to call them in the order that
19 they're listed if that's possible.

20 APPLICANT STAFF: Yes, sir.

21 MR. SCHMITT: And then some, there may be
22 questions for others or there may not. And
23 think we have determined that because when get
24 to the end of the list, a witness may say, well
25 so and so will know that, so we will not excuse

1 any of your witnesses until the last one has
2 testified. Okay?

3 APPLICANT STAFF: All right. I may need
4 to visit with you on that.

5 MR. SCHMITT: That's fine. If that
6 becomes a problem, we'll see if we can work
7 that out and we can do that at the first break
8 and we can do it on the record while everyone
9 else is on the break.

10 APPLICANT STAFF: Thank you, Your Honor.

11 MR. SCHMITT: All right. Would you,
12 Mr. Riggs, would you please call your first
13 witness.

14 APPLICANT STAFF: Yes, Your Honor. The
15 company calls Mr. Victor Staffieri.

16 **VICTOR STAFFIERI,**

17 the witness herein, having been duly placed under
18 oath, was examined and testified as follows:

19 **DIRECT EXAMINATION**

20 **BY APPLICANT STAFF:**

21 Q. Would you please state your name for the
22 record?

23 A. Yes. My name is Victor Staffieri,
24 S-T-A-F-F-I-E-R-I.

25 Q. What is your position with the Louisville

1 Gas and Electric and Kentucky Utilities?

2 A. I am the CEO and Chairman of both of those
3 companies.

4 Q. Mr. Staffieri, subject to the errata that
5 was filed with commission on May 4th, if I were to ask
6 you questions pertaining to your direct testimony
7 today, would your answers be the same?

8 A. They would be.

9 Q. Do you now adopt and confirm that as your
10 testimony?

11 A. I do.

12 APPLICANT STAFF: Your Honor, I have no
13 further questions.

14 MR. SCHMITT: Cross-examination?

15 STAFF COUNSEL: Not at this time.

16 MR. SCHMITT: Any questions from the
17 Intervenor?

18 INTERVENOR STAFF: Yes, Your Honor.

19 **CROSS-EXAMINATION**

20 **BY INTERVENOR STAFF:**

21 Q. Good afternoon.

22 A. Good afternoon, counsel.

23 Q. The rate application as filed requested
24 revenue increases of 103.1 million for KU and 94.1
25 million for LG&E, while a settlement increases are

1 for 54.9 million for KU, which equates to 53 percent
2 of KU's request, and 59.4 million for LG&E Electric
3 which equates to 63 percent of LG&E Electric's
4 request.

5 Do those numbers sound approximately
6 correct?

7 A. Subject to check, yes.

8 Q. Do KU and LG&E intend to reduce their
9 respective capital spending as a result of the lower
10 increases in revenues and granted or recommended in
11 this case?

12 A. Other than from what I understand the
13 automatic meter study, no.

14 Q. So all of the transmission upgrades that
15 were budgeted will be --

16 A. Absolutely.

17 Q. And will they all be on the same schedule?

18 A. We certainly hope so.

19 Q. Okay. In your testimony on Page 10 you
20 discuss the LG&E KU 10 megawatt solar facility
21 ground station and the recent solar share program.
22 Then over on Page 11, you refer to a business solar
23 option for business and industrial customers who
24 prefer to have an on-site solar facility. My
25 question is, do the tariffs proposed in these rate

1 cases include that business solar option?

2 A. I'm not -- I don't know counsel. We can
3 ask that of someone else. But I know all the
4 programs were approved by the Commission. I am not
5 sure of the status of the tariff sheets.

6 Q. Okay. Staff has some questions for Greg
7 Meiman related to employee benefits, but I would
8 like you to explain the process by which decisions
9 are made with respect to the types and levels of
10 employee benefits provided by KU and LG&E?

11 A. We have a study that we do. We look at
12 comparative benefits of other companies, other
13 industries. We use that as a benchmark. We take
14 into account the union negotiations with our
15 existing unions and where we are and from the past
16 where the Commission has been in the past, and we
17 use that as a guideline for the future.

18 We also conduct -- I should say, excuse
19 me, that with respect to the benefits, particularly
20 medical, we have been concerned in the past about
21 increases and we have worked very hard with our
22 unions to try and find ways to cost share those
23 expenses.

24 Q. Who actually makes the decisions with
25 regards to the program?

1 A. They are made collectively by the Board,
2 including myself.

3 Q. Who are the members of the Board?

4 A. Myself, Paul Thompson, Dick Sorgy from PP&L
5 and Bill Spencer from PP&L.

6 Q. Is there any effort to review the benefits
7 provided by PP&L to its employees to try to align
8 them with what LG&E and KU are providing?

9 A. Not necessarily. We try to look at our
10 market different. The state of Kentucky is
11 different than Pennsylvania. They're a much more
12 northeast corridor. I think we're less. And so we
13 try to treat our customers consistent with Kentucky
14 work practices and existing contracts with our
15 unions.

16 Q. For many years Kentucky Utilities has
17 provided full requirement electric service to ten
18 municipal customers in Kentucky; is that correct?

19 A. That's correct.

20 Q. And those customers have given notice of
21 termination of their contracts and also to be
22 effective in early 2019?

23 A. That's correct.

24 Q. And those municipal customers account for
25 approximately 300 megawatts of KU's load, not

1 include Missouri's?

2 A. I believe that is correct.

3 Q. And those customers, those municipal
4 customers, pay KU approximately 60 million annually
5 in demand charges through the power they purchase?

6 A. I'll accept that subject to check. I
7 don't know off the top of my head.

8 Q. Okay. Can you tell me whether KU has
9 secured new customers to purchase at generation that
10 will be freed up when the Kentucky municipal
11 terminate their contracts?

12 A. No, we have not. We will take into
13 account what our load growth would be to the extent
14 they have load growth, and we grow into those. But
15 we do not have new municipals to replace for the ten
16 that left our system.

17 Q. When KU files it's next rate case, if it
18 is not secured to new customers to purchase the 300
19 megawatts of load that is now being purchased by the
20 Kentucky municipals, what impact, if any, would be
21 on KU retail rates?

22 A. I don't know. It all depends on the
23 circumstance at the time when those municipals leave
24 our territory. Depends on the rate forecast,
25 depends on our planned service. I couldn't tell you

1 exactly the impact.

2 Q. Well, would there be an intent that
3 Kentucky's retail customers should at that point in
4 time pay for the generation that was historically
5 purchased by the Kentucky municipals?

6 A. We don't generate power and assign it to
7 any particular customer or to a particular plant.
8 So we build for our expected load. I would expect
9 that load, pardon me, the generation assets would be
10 included, yes.

11 Q. Well, in the past for planning for the
12 level of generation needed on you KU system, did KU
13 include the 300 megawatts plus reserves needed to
14 serve the Kentucky municipal?

15 A. Absolutely.

16 INTERVENOR STAFF: No further question,
17 Mr. Staffieri.

18 THE WITNESS: Thank you.

19 MR. SCHMITT: Commission Cicero?

20 **EXAMINATION**

21 **BY MR. CICERO:**

22 Q. There are four board members --

23 A. Yes.

24 Q. -- for LG&E and KU and two are officers in
25 the LG&E pay organization?

1 A. That's correct.

2 Q. So is there outside prospective that is
3 given to the organization that's kind of a closed
4 group of people?

5 A. Generally speaking, the -- when we get
6 things to the board level at LG&E and KU, it would
7 be at the -- it would be with the direction of PP&L
8 and their Board of Directors.

9 Q. So you would characterize the benefits or
10 salaries enjoyed by KU and LG&E as similar to what
11 PP&L has.

12 A. No. That's not -- I'm sorry. I was
13 saying you are asking in general, I apologize.

14 Q. And I was.

15 A. With respect to the benefits, I think that
16 would be a comparative analysis that we would do
17 here in Kentucky. And the analysis we would do with
18 respect to our union in past practices, that would
19 be an influence of outside parties and that is what
20 the board would generally adopt.

21 Q. But those would be used to benchmark
22 typically, right? You would look at Kentucky in
23 general and say from a benchmarking standpoint we
24 feel these are fair compensation levels and,
25 therefore, it would be competitive and here is what

1 our benchmarks are.

2 A. I think that would be fair. I think Greg
3 Meiman, who prepared the response to interrogatories
4 last week, would be in a better position to tell you
5 exactly what the benchmarks are.

6 Q. I have questions, but I am trying to get a
7 general idea here about the organization itself and
8 how it structures its compensation.

9 A. Okay.

10 Q. So if I look at some of the different
11 plans that are offered by the organization, which
12 are not being benchmarked in terms of whether there
13 are rich or not rich, or competitive or not
14 competitive, how would that process start with we
15 need this plan, we need vision, we need dental, we
16 need life insurance? What group goes through that
17 review to make certain that you are offering a
18 competitive package?

19 A. Our HR function would do that. Our human
20 resource function by Mr. Meiman would do that, and
21 senior management.

22 Q. I will ask my other questions to
23 Mr. Meiman at this point and reserve possibly
24 additional questions to yourself at a later point.

25 MR. SCHMITT: Mr. Logsdon, do you have any

1 questions?

2 MR. LOGSDON: No questions.

3 MR. SCHMITT: I have no questions of this
4 witness.

5 Mr. Riggs, do you have any questions?

6 APPLICANT STAFF: Yes, very brief.

7 **REDIRECT EXAMINATION**

8 **BY APPLICANT STAFF:**

9 Q. Mr. Staffieri, are you aware that the
10 agreement LG&E has for the tolling power
11 agreement when Bluegrass expires in April of 2019?

12 A. Now that you have refreshed my
13 recollection, I do.

14 Q. Did LG&E KU also cancel a proposed
15 regeneration plant at the Green River location?

16 A. Yes.

17 APPLICANT STAFF: Thank you. Those are
18 all the questions that I have.

19 MR. SCHMITT: Anyone representing one of
20 the other Intervenors have any questions? If
21 not, you may be excused from the stand, but
22 please stay in the hearing room.

23 THE WITNESS: For two days? Yes, Your
24 Honor.

25 MR. SCHMITT: Well, if there is an issue,

1 we can discuss it at the break.

2 THE WITNESS: I apologize. You're right.

3 MR. SCHMITT: But if you can stay another
4 45 minutes.

5 THE WITNESS: Of course.

6 MR. SCHMITT: Okay. Thank you.

7 Call your next witness.

8 MR. RIGGS. The Company would call
9 Mr. Paul Thompson.

10 **PAUL THOMPSON,**

11 the witness herein, having been duly placed under
12 oath, was examined and testified as follows:

13 **DIRECT EXAMINATION**

14 **BY APPLICANT STAFF:**

15 Q. Good afternoon, Mr. Thompson. Would you
16 state your name, title and business address for the
17 record, please.

18 A. My name is Paul W. Thompson. I'm the
19 President and Chief Operating Officer of LG&E and
20 KU. The office is 220 West Main Street, Louisville,
21 Kentucky.

22 Q. And subject to the errata filing that was
23 referenced and filed on May 4th, if I were to ask
24 you the same questions contained in your direct
25 testimony, would your answers remain the same?

1 A. That is correct, yes.

2 APPLICANT STAFF: Okay. No further
3 questions.

4 MR. SCHMITT: Staff?

5 COMMISSION STAFF: No questions.

6 MR. SCHMITT: Mr. Cicero?

7 MR. CICERO: No questions.

8 MR. SCHMITT: Mr. Logsdon?

9 MR. LOGSDON: No questions.

10 MR. SCHMITT: I have none.

11 Does any counsel representing any of the
12 Intervenors have any question for Mr. Thompson?
13 If not, you may be excused from the stand.
14 Please remain in the hearing room until we have
15 our first recess and discuss maybe additional
16 questions later.

17 THE WITNESS: Yes, sir. Thank you.

18 MR. SCHMITT: Counsel, next witness.

19 APPLICANT STAFF: Thank you. We call
20 Mr. Kent Blake.

21 **KENT BLAKE,**

22 the witness herein, having been duly placed under
23 oath, was examined and testified as follows:

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25 =====

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DIRECT EXAMINATION

BY APPLICANT STAFF:

Q. Would you please state your name.

A. Kent Blake.

Q. Mr. Blake, what is your title?

A. Chief Financial Officer for LG&E and KU.

Q. Mr. Blake, did you file written testimony
pertaining to LG&E and KU in these proceedings?

A. I did.

Q. And did you also file rebuttal testimony?

A. I did.

Q. Finally, did you file testimony in support
of what is referred to as the first stipulation for
LG&E KU procedures?

A. I did.

Q. Subject to the erratas filed, if I were to
ask you questions pertaining to those prefile
testimony, would your answers would be the same?

A. They would.

Q. Do you adopt that testimony?

A. I do.

APPLICANT STAFF: Thank you. Mr. Blake is
available for any questions.

MR. SCHMITT: Counsel for Staff, any
questions?

1 COMMISSION STAFF: Yes, your Honor.

2 **CROSS-EXAMINATION**

3 **BY COMMISSION STAFF:**

4 Q. Good afternoon, Mr. Blake.

5 A. Good afternoon, Mr. Ngyuen.

6 Q. With reference to Exhibits 4, 5, 6 of the
7 first stipulation, those were the revenue allocation
8 schedules?

9 A. Okay.

10 Q. Post day request, can the companies
11 provide those in Excel spreadsheet format?

12 A. Yes, they can.

13 Q. And if you can refer to paragraph 4.5,
14 first paragraph regarding the five year limit on gas
15 line track recovery.

16 A. I'm sorry. What was the paragraph
17 reference?

18 Q. 4.5.

19 A. Okay.

20 Q. Okay. So this provision limits -- it's
21 got a five-year limitation on the gas line track
22 recovery and for the proposed transmission
23 modernization and service private placement project;
24 is that correct?

25 A. That's correct.

1 Q. Okay. And then it goes on to provide that
2 any remaining costs for such a program would recover
3 through base rates via a base rate roll-in effective
4 for service rendered on or after July 1st, 2022; is
5 that correct?

6 A. That's correct.

7 Q. Does this contemplate that LG&E Gas will
8 be filing a base rate case in early 2022 with a
9 proposed rate increase on or after July 1 of 2022?

10 A. No. Actually, the intent of the provision
11 was simply to limit recovery of these programs
12 through the gas line tracker through that date, and
13 it happened to be a five-year period.

14 Q. Okay. So, in essence of a base rate
15 application that he explained how and through what
16 mechanism they'll be, LG&E envisioned rolling those
17 remaining costs into base rates after that July 1
18 period?

19 A. I guess we could do it through a base rate
20 proceeding or a separate proceeding in which we
21 would lower the rate on the gas line tracker
22 mechanism and role that into base rate. I guess you
23 are right. It probably would be best handled
24 through a rate case.

25 Q. So it could be either?

1 A. It could be either. It could be a
2 separate tariff filing or a base rate, yes.

3 Q. But there will be some proceeding or
4 application that will be filed by the company?

5 A. Correct. Subject to the Commission's
6 approval.

7 Q. And then the first stipulation also
8 provides for a revised depreciation rates that were
9 agreed to; is that correct?

10 A. That's correct.

11 Q. And the agreed to depreciation rates
12 reflect a decrease in appreciation rates for KU and
13 LG&E steam plans; is that correct?

14 A. Relative to our filed depreciation study,
15 correct. Not relative to current rates.

16 Q. Right.

17 So do the revised depreciation rates
18 relative to the proposed rates, do those have a
19 component for net salvage for those steamed in rate
20 assets?

21 A. The stipulated rates?

22 Q. Yes.

23 A. I would say we are working through the
24 components of those all in rates.

25 Q. Okay.

1 A. I think it's fair to say since the current
2 rates that were in effect prior to this proceeding,
3 did have a net terminal salvage value component and
4 the depreciation rates in this case are higher than
5 those, yet lower than our filed position.

6 Q. Right.

7 A. It's fair to assume that there would be a
8 determined salvage value.

9 Q. But the company --

10 A. We have not broken down the depreciation
11 rates. Through the course of negotiations, given
12 the company's position and the various positions of
13 Intervenors, we simply agreed to the all in
14 depreciation rate.

15 Q. How long do you anticipate the companies
16 to be able to breakdown those components?

17 A. We'll certainly have to do it before those
18 rates take effect. Because from an accounting
19 standpoint, any component to depreciation rates that
20 are associated with determining that salvage value
21 cost removal, have to be to booked to a separate
22 permanent account.

23 Q. And will there -- be at this point, do you
24 anticipate it being one that net salvage percentage
25 value for all of the steam plant accounts, or will

1 there be different net salvage values for each of
2 the potential different ones?

3 A. Right. We haven't had that discussion yet
4 to work through the mechanics. Chris Garrett may
5 have some more information on that and he worked
6 more closely with Mr. Spanos, who submitted our
7 depreciation study.

8 Q. Okay.

9 A. So we're still working with him at this
10 time.

11 Q. Will he -- will Mr. Garrett have more in
12 terms of timeline --

13 A. Well, the timeline, I can tell you will
14 be -- assuming approval or an order on June 30 and
15 the new rates taking effect July 1st, we will have
16 it worked out before June 30th because we'll have to
17 book it in July.

18 Q. Give me one second.

19 So as a, I guess, a continuing pro se
20 request, when the companies determine what the net
21 salvage value is, could that be provided and
22 submitted as soon as possible?

23 A. Yes, it can. And I probably should
24 clarify. I do think that it will vary depending on
25 the type of plant. For example, coal fire

1 generation versus a combined cycle plant. And I do
2 expect the components will reflect both a difference
3 in assumed useful lives of the assets and the
4 terminal salvage value.

5 Q. The first stipulation also has a provision
6 relating to the eight-year average generator outage
7 expense?

8 A. Yes.

9 Q. Okay. So if you turn to Page 12 of your
10 testimony in support of the stipulation, Lines 4
11 through 14, you sort of describe the reason for the
12 provision. And you state that, you know, the
13 companies proposed the proceedings to include
14 revenue requirement outage expenses that are
15 projected forecast and tested. But that because
16 those expenses can fluctuate and due to each
17 generators major outage tend to occur -- tend to be
18 within that eight-year period, that the companies
19 agreed to a modification of that calculation of that
20 outage expense to reflect an eight-year average.
21 And that average reflects four historical years for
22 budget or forecast; is that correct?

23 A. Right.

24 Q. So, if actual generator outage expenses
25 were greater than the eight-year average, KU or LG&E

1 would record the incremental excess as a regulatory
2 asset; is that correct?

3 A. Correct.

4 Q. Okay. And vice versa, if the actual
5 expenses were lower than the eight-year average,
6 LG&E and KU would then put as a regulatory
7 liability?

8 A. That's correct.

9 Q. Okay. Given that, can you explain what
10 checks and balances KU and LG&E have in place to
11 insure that such expenses are reasonable?

12 A. I think it's the same philosophy that the
13 company has always had, which is to look at every
14 investment and every expenditure based on what is
15 needed to provide safe, reliable service to our
16 customers, and to do so in the most cost effective
17 manner. We have obviously done that. We have a
18 history of doing that regardless of incentive to do
19 so. The most recent example that comes to mind
20 would be the environmental compliance programs that
21 lasted many years and were subject to quarterly
22 reviews by the Commission consultant.

23 At the end of that time, while we had
24 those plans, those programs approved, and had timely
25 recovery of that investment of and on that

1 investment, we actually brought the projects in well
2 under budget and on schedule. So I would say that
3 incentive is always there. I certainly don't like
4 to come here for rate cases, so we like to keep our
5 costs down as low as possible.

6 I think certainly there will be -- with
7 regard to specifically these planned outages and the
8 accounting for that, I would say that if there was
9 going to be a level of major plan outages embedded
10 into rates, because that a reoccurring operating
11 expense of the company per diem per cost. The issue
12 was that as you have stated, that number does tend
13 to bounce around depending on which plants you have
14 outages scheduled for that year. After they do the
15 last, we generally have on average eight-years
16 between outages.

17 Everyone was looking for some means and
18 some recognized that at least for LG&E, it was one
19 of higher years, the forecasted test year happened
20 to be. That was not really the case on KU.

21 So to more normalize that, yet give the
22 companies the opportunity to recover all of those
23 incurred costs, this is the methodology that was
24 negotiated as part of the stipulation as a whole.

25 So, I think there is that incentive. I

1 think clearly within every rate case that follows
2 this, there will be a look at that regulatory asset
3 or regulatory liability balance to determine what
4 the companies have running through there and what is
5 remaining in that balance.

6 So I think there will be the added review
7 in such rate cases since we will have a regulatory
8 asset or liability for the difference between cost
9 incurred and what's currently embedded in the rates.

10 Q. Okay. And then there are -- well, there
11 is a provision in the first stipulation as well
12 addressing regulatory accounting for over and under
13 recovery of regulatory assets, and this is in
14 particular for short-lived regulatory assets; is
15 that correct?

16 A. That's correct.

17 Q. Okay. Can you give me an example of how
18 this provision would work for, you know, short-lived
19 regulatory assets?

20 A. Sure.

21 Q. How -- this is going to be a multi-part
22 question. So an example of that, how the provision
23 differs from a current practice and why there is a
24 need for this change from the current practice?

25 A. Once again, I would say that provision,

1 like every other provision here, was the product of
2 settlement negotiations over the course of the three
3 days here at the Commission. One of the issues
4 raised in the record by a number of parties was part
5 of our cost of service in calculating revenue
6 requirement was the amortization of existing
7 previously approved regulatory assets.

8 There was a concern raised that some of
9 those assets did not have much left to go from the
10 original amortization period that was approved for
11 the recovery of those assets. The concern was, if
12 you embed that amortization in current rates, the
13 company goes a lengthy time without coming back in
14 for another rate case, if you look at that item in
15 isolation, the companies are potentially
16 over-recovering that original cost that was approved
17 as a regulatory asset. So that's what this
18 provision addresses.

19 So there is an amount that's calculated as
20 part of the review requirement for the amortization
21 for each of those stated assets. So we will credit
22 that against the regulatory asset based on the
23 amounts and rates.

24 To the extent that given the -- that
25 amortization level and the time between this case

1 and our next case, we actually do amortize and
2 recover more than the amount originally approved
3 rather than that going essentially to the bottom
4 line income of utilities, it would be reported as a
5 regulatory liability. So it would essentially take
6 that original cost approved as a regulatory asset
7 and turn it into a liability.

8 And it's similar to what we did with the
9 MISO exit fee, that there was an amount improved
10 associated with transmission expense embedded in
11 base rates when we were approved to exit MISO back
12 in 2006. And so that amount was credited against
13 the regulatory asset and ultimately did become a
14 liability that was then returned back to customers.

15 Q. One second.

16 Mr. Blake, from a financial prospective,
17 does KU have any concerns about losing 60 million
18 dollars in demand charges in 2019 when the contract
19 ends with the Kentucky municipal customers?

20 A. Certainly. It was certainly not the loss
21 of those nine municipal customers. I should point
22 out that two did stay. So, it was not our choice
23 that they leave. We did what we thought we could to
24 try to entice them to stay with KU, but they had a
25 contractual right by termination notice, and they

1 did, and that termination will take effect April 30.
2 And I heard the questions asked of Mr. Staffieri and
3 the questions asked by Mr. Riggs to Mr. Staffieri
4 and I would -- I think of it this way: When we
5 received that notice of termination, you may recall
6 that we withdrew a certificate -- a request for a
7 certificate of public convenience necessity to build
8 a combined cycle gas plant at our Green River
9 location. With the loss of that 300 megawatts of
10 load, we weren't going to need that. So that is why
11 we withdrew it with the assumption that the
12 municipal would, in fact, make -- continue with
13 their commitment and leave the system April 30th of
14 2019.

15 We also, not coincidentally, for demand
16 power needs, capacity need, between now and
17 April 30, 2019, we entered into an agreement to
18 Mr. Riggs referenced a tolling agreement effectively
19 leasing a combined cycle plant at the Bluegrass
20 facility in northern Kentucky. That goes away at
21 the same time the municipals leave the system?

22 So -- but more importantly on the combined
23 cycle plan, I would tend to say that it is fair that
24 all else being equal, there are a number of factors
25 that will come into play, all of us being equal,

1 Kentucky retail customers, our Kays Virginia retail
2 customers, the remaining municipal customers, will
3 have a larger slice of that capacity come May of
4 2019 or our next rate case after that date.

5 However, that pie of that cost, generation
6 capacity cost, will be smaller because that combined
7 cycle gas plant at Green River will not be in there
8 and Bluegrass lease will not be in there as well.

9 Q. Do you recall what the proposed capacity
10 of Bluegrass -- I'm sorry, the Green River combined
11 cycle project?

12 A. I want to say it was similar to our Cane
13 Run seven plants. Probably in that 700 megawatt
14 area.

15 Q. And then what's the -- is it -- it's for
16 one of Bluegrass CT units, correct?

17 A. It's for one of the units, right.

18 Q. And what is the capacity for that?

19 A. It's -- I think it's similar to ours. I
20 think it's in that 150 megawatt area, but I am
21 guessing on that. I don't recall exactly.

22 Q. And if it's confidential, that's fine, you
23 do not have to respond. But in terms of contractual
24 rate for the Bluegrass tolling agreement, do you
25 know what the contract --

1 A. No. Not off the top of my head.

2 Q. Okay. And was the Bluegrass tolling
3 agreement allocated 100 percent to LG&E or were
4 there allocations to KU as well?

5 A. It was 100 percent to LG&E. And so that
6 will be a consideration, as well would be reserve
7 margins, once we lose that resource and the nine
8 municipals depart the system for KU, we will be
9 looking at -- and our start we have been, we will
10 continue to look at reserve margins for LG&E versus
11 those at KU looking at generation capacity relative
12 to demand.

13 Q. Are you aware of any specific efforts
14 currently being taken by KU and/or LG&E to secure
15 alternative buyers for the 300 megawatts of
16 generation that will no longer be purchased by the
17 departing customers?

18 A. No active solicitation that I am aware of.

19 COMMISSION STAFF: Those are all the
20 questions. Thank you, Your Honor.

21 MR. SCHMITT: Mr. Cicero, do you have any
22 questions?

23 MR. CICERO: No, sir.

24 MR. LOGSDON: I have just one.

25 =====

1

EXAMINATION

2 BY MR. LOGSDON:

3 Q. I know you just said you had not done any
4 formal studies or looked at a specific vendor, but
5 in your experience -- that's a dangerous question,
6 but are off season sales something that you can
7 mitigate the loss of the customers?

8 A. They can. It obviously depends on, as you
9 know, our generation capacity goes to serve retail
10 load first. So the cheapest resources will go to
11 serve our retail customers.

12 So it becomes a question, if you have
13 extra capacity on any given hour, is the variable
14 cost of generating that power less than the current
15 market price for energy. So it would be depending
16 on the market.

17 Q. I know you are not members of MISO, but
18 you sell into MISO?

19 A. We sell into MISO, we sell into PJM and we
20 sell through other vehicles as well.

21 Q. Okay.

22 MR. SCHMITT: Any further questions?

23 APPLICANT STAFF: No, Your Honor.

24 MR. SCHMITT: Staff?

25 COMMISSION STAFF: No.

1 MR. SCHMITT: Counsel for any Intervenor,
2 do have any questions for this witness?

3 If not, you may step down.

4 THE WITNESS: Thank you.

5 MR. SCHMITT: Counselor, you may call your
6 next witness.

7 APPLICANT STAFF: Yes, sir. Mr. Robert
8 Conroy.

9 Ms. Sturgeon will present the Company.

10 **ROBERT CONROY,**

11 the witness herein, having been duly placed under
12 oath, was examined and testified as follows:

13 **DIRECT EXAMINATION**

14 **BY APPLICANT STAFF:**

15 Q. Good afternoon, Mr. Conroy, can you
16 state --

17 A. Good afternoon.

18 Q. -- your name, title and business address,
19 please?

20 A. Yes. My name is Robert M. Conroy. I am
21 Vice-President of State Regulation and Rates for
22 LG&E KU. My business address is 220 West Main
23 Street.

24 Q. Okay. And if I were to ask you the same
25 questions today that were contained in your

1 testimony filed through the date of responses,
2 subject to the corrections in the errata sheets that
3 have already been filed, would your answers remain
4 the same?

5 A. Yes, they would.

6 MS. STURGEON: No further questions.

7 MR. SCHMITT: Staff?

8 COMMISSION STAFF: Yes.

9 **CROSS-EXAMINATION**

10 **BY COMMISSION STAFF:**

11 Q. Mr. Conway, can you turn to Page 25 in
12 your direct testimony in the KU matter?

13 A. In --

14 Q. KU?

15 A. KU. Yes.

16 Q. You have similar testimonies in the LG&E
17 case.

18 A. Okay.

19 Q. So Page 25 of your KU testimony discussed
20 the proposal to eliminate the meter data processing
21 charge; is that correct?

22 A. Yes, it does.

23 Q. Okay. If you go to Line 19, you state
24 that, "The company proposes to stop offering the
25 service in favor of transitioning to having

1 customers receive the same information at no cost
2 via a portal on the company's website negating the
3 need for the charge"; is that correct?

4 A. That's correct.

5 Q. Okay. The tariffs have filed a
6 stipulation showing the charge has been removed; is
7 that correct?

8 A. You're referring to Stipulation Exhibit 7?

9 Q. Yes.

10 A. Seven is KU.

11 Q. Yes.

12 A. Yes. It's not shown on the Stipulation
13 Exhibit because it was -- this a red line to the
14 original file of tariff, and the original file of
15 tariff in the application had it red lined and it
16 was removed.

17 Q. Okay. And given that the AMS project has
18 been withdrawn as part of the stipulation, can you
19 confirm that it's still the intent of KU and LG&E to
20 delete this charge.

21 A. Yes, it is.

22 Q. Okay. Turn now to Page 26 of your direct
23 KU testimony. It's regarding unauthorized reconnect
24 charge?

25 A. Okay.

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1 Q. Okay. On Line 19, it shows a charge of
2 \$174 for tampering an unauthorized connection or
3 reconnection that requires the placement of a single
4 phase or automatic meter system or AMS meter. Given
5 that the AMS project has been withdrawn as part of
6 the stipulation, is there a reason why the company
7 has proposed KU and LG&E has the same -- you had the
8 same testimony in the LG&E case. Is the reason why
9 the company has proposed to leave that part of the
10 unauthorized reconnect charge and the tariffs, is
11 because of AMS meters being installed through the
12 DSM program?

13 A. Yeah. The fact that we're removing full
14 deployment, AMS doesn't effect the DMS program that
15 we have where we do already have AMS meters out
16 there. We will leave this charge in place to
17 address any unauthorized reconnects or disconnects
18 from those customers.

19 Q. So there's reasons outside the AMS
20 project?

21 A. That's correct.

22 Q. And switching now to the -- if you can
23 refer to LG&E's revised electric tariff, Exhibit 8
24 to the stipulation, sheet number 97?

25 A. Okay.

1 Q. In the application for service section,
2 the first paragraph, there were revisions to this
3 paragraph that were not made to the corresponding
4 application for service section on sheet number 97,
5 LG&E's gas tariff which was attached as Exhibit 9 to
6 the stipulation. And you had responded, in response
7 to Item 12 of Staff's Second Data Request, that due
8 to oversight, LG&E felt that those were the same
9 changes to sheet number 97 of LG&E's gas tariff and
10 LG&E would propose those same changes.

11 Do you recall that response?

12 A. Yes, I do.

13 Q. Okay. So does LG&E plan to file the same
14 revised language with an application for service
15 section of the gas tariff when it makes the filing?

16 A. Yes. It looks like we inadvertently, in
17 preparing the stipulation to the exhibits, did not
18 pick up the revision from that data response.

19 Q. Okay. And those were just, in terms of
20 the application on how it could be accepted; is that
21 right?

22 A. That's correct.

23 Q. Okay. So if you can refer to now your
24 stipulation testimony Pages 7 through 9. This deals
25 with the provisions in the stipulation of the two

1 pilot tariffs with schools subject to KRS 160.325?

2 A. Yes.

3 Q. Okay. Can you tell us the purpose of
4 these pilot school tariffs? What type of
5 information will be obtained from these tariffs and
6 what the company plans to do with the information?

7 A. In the record in this case as well as in
8 the record in probably the last several cases,
9 there's been information that related to schools
10 being different than other commercial customers.
11 They have different low profiles. They were served
12 on the same rates. In the stipulation we agreed to
13 offer a pilot program that would allow us to
14 determine whether these schools do have a different
15 profile, but then other commercial investor
16 customers on our PS rates and time of day rates.

17 So this would allow us to have a limited
18 number of customers on it, and collect the data that
19 would be necessary to determine whether there is a
20 different low profile, a different cost of service
21 for those types of customers.

22 Q. Okay. And the data that you have
23 collected, would that be sort of formalized in a
24 report or how would that be shared, or will that be
25 shared, with the member schools that participate

1 with -- through KSPA?

2 A. I would anticipate that it would be the
3 subject of an extra rate case, where we look at cost
4 of service studies and look at the class in and of
5 itself and determine whether there is a different
6 cost to serve those types of customers, than other
7 commercial industrial customers on rate PS and rate
8 TOD.

9 Q. Turning now to Exhibit RMC-1 to your
10 stipulation testimony?

11 A. Okay.

12 Q. That Exhibit is an Excel spreadsheet that
13 calculates the updated gas line tracker rates; is
14 that correct?

15 A. That's correct.

16 Q. Okay.

17 A. I have a print-out of it, but if we need
18 to, we can pull it out.

19 Q. No, that's fine.

20 The ROR tab includes a return on equity
21 component of 10 percent; is that correct?

22 A. That is correct. That is currently the
23 authorized ROE for the gas line tracker mechanism.

24 Q. Okay. So the stipulation, the agreed to
25 ROE is not 7.5 percent in the stipulation; is that

1 correct?

2 A. The stipulation is 9.75 for the
3 determination of base rates.

4 Q. So is that the reason why LG&E is using
5 the 10 percent instead of a 90 percent project?

6 A. That's correct. For the gas line tracker,
7 that's the current ROE authorized.

8 Q. Okay. As opposed to a data request, can
9 you provide the revised spreadsheet showing 9.75
10 percent instead of the 10 percent?

11 A. Yes, we can.

12 Q. And besides the GLT rates, were any other
13 rates calculated using ample costs based on an ROE
14 other than 9.75 percent?

15 A. When you say any of the other rates, are
16 you referring to the tariffed rates?

17 Q. Excluding any surcharges?

18 A. Excluding surcharges, I do not believe so.

19 Q. Okay.

20 A. We did not recalculate the solar share
21 capacity rates within this proceeding. Those were
22 approved a couple weeks before we actually filed
23 this case. So we left them there.

24 Q. Okay. Do you have your response, or
25 LG&E's response, to Staff's Third Request, Item 32?

1 A. I believe she can get it pulled up.

2 Q. Okay. Do you have it?

3 A. I have it, but I believe they want it on
4 the screen.

5 APPLICANT STAFF: Mr. Conroy is looking at
6 the file on his monitor, which is identical to
7 what's shown on the screen.

8 BY COMMISSION STAFF:

9 Q. Okay. So, the question is asking LG&E
10 with respect to whether LG&E would be willing to
11 continue to include the gas line cost component on
12 its vary rate schedules. And the response provides
13 the rationale as to why LG&E is removing it from
14 those various rate schedules. And at the very end,
15 LG&E states that, "Should the Commission desire this
16 information, we'll require it, that LG&E will comply
17 with that requirement."

18 So, is LG&E still willing to continue to
19 include the gas as a component on its various rate
20 schedules against gas tariff?

21 A. As stated here, we think it's more
22 efficient to not include on every care. We have to
23 revise that every three months when we file the gas
24 line tracker. However, if the Commission wants to
25 have it on the individual tariffs, we are willing to

1 include that.

2 Q. Sure. And we recognize that it's more
3 efficient for the company to do so in terms of
4 customers that it would be better for to have the
5 information included like the rate schedule as well?

6 A. I understand.

7 Q. So would this be included in LG&E Gas
8 compliance tariff?

9 A. Yes. We can include it back in the
10 tariffs when we file them.

11 Q. Okay. And in the applications, both LG&E
12 and KU, request authority to establish regulatory
13 asset for the remaining network value of the
14 electric meters that would have been retired as a
15 result of the AMS project. They also request
16 deviation of certain condition regulations regarding
17 meter inspection and testing in connection with the
18 deployment of the proposed AMS project. Given that
19 the companies have agreed to withdrew their request
20 for CPC to the AMS project, I understand the
21 companies are also withdrawing their request for
22 establishment of regulatory asset and deviations
23 with respect to meter inspection and testing?

24 A. Yes. The request for the regulatory asset
25 would not be needed any longer and the deviations we

1 requested that are stated in my testimony are no
2 longer needed as well at this time.

3 Q. So, do the tariffs proposed in these cases
4 include the business solar opportunity referred by
5 Mr. Staffieri at Page 11 of his testimony?

6 A. There was a data request, I believe, in
7 the second round of information where they asked
8 about that. The tariff provisions do not include
9 solar. It is not tariff offering. It is an
10 offering that would do with individual customers and
11 their contract. And that special contract would be
12 filed with the Commission for approval.

13 So there is no specific tariff offering
14 for business solar. It is an offer that we have to
15 large customers that we would do under special
16 contract specifically where we'd have to file with
17 the Commission.

18 Q. So in terms of that offering, how would
19 those large customers be made aware of that
20 potential option to have a business solar option?

21 A. With all of our large customers, we have
22 major account reps who interact with those accounts.
23 They've had correspondence with them on this
24 offering. I believe they're on our website. There
25 is also reference to business solar offering along

1 with the solar share program.

2 Q. So for potential new customers that would
3 want to relocate within LG&E and KU's service
4 territories, how would those customers be made aware
5 of this potential option as well?

6 A. The fact that we are offering business
7 solar is out there in the public in different
8 publications or economic development, along with the
9 other options that we have for solar and the fact
10 that we have ground solar as well. So that is a key
11 to attracting businesses to the state who need to
12 have renewables. So we do have offers that is
13 communicated through the economic development
14 cabinet as target marketing for those potential
15 customers as well.

16 Q. So are you saying --

17 A. Yes. It would be part of any discussions
18 that our economic development folks would have with
19 prospective clients and customers that want to
20 locate to the state.

21 Q. Okay. So, I guess -- I guess I don't have
22 a full understanding of what a potential customer is
23 seeing to relocate, what the logistics are. If --
24 if LG&E doesn't know, you know, a customer is
25 seeking to relocate, a potential customer to locate

1 within its territory, how would that customer be
2 made aware of that potential offering if there are
3 no other means to do so?

4 A. Again, I believe on our corporate website
5 there is information related to the business solar
6 offering. Subject to check, we could look into that
7 as well. It is -- has been communicated to the
8 different magazines and publications that promote
9 the state. So I believe the information is out
10 there. Mr. Malloy would have some background on
11 that as well that he could fill in.

12 Q. Okay. Let's go back to the pilot program
13 for the schools. If the data collected over the
14 next couple of years indicate that schools have a
15 unique low profile, will KU and LG&E propose a
16 special rate for schools in their next rate cases?

17 A. I would have to say we would have to
18 re-evaluate the data and see what the cost of
19 service would say and design rates similar to what
20 we have in this case.

21 Q. So does that mean that if it indeed shows
22 that the schools have a low profile that is unique
23 to the characteristics different from customers that
24 starting up the rate schedule, would KU and LG&E
25 propose a separate rate schedule for the schools?

1 A. Again, this -- this program is a pilot to
2 analyze the data. We would have to take the data
3 and decide how best to proceed once we get through
4 the pilot. I can't say that we would propose
5 something specific at this time without reviewing
6 what the information says.

7 We would work with our consultant on cost
8 of service and determine what the best offering
9 would be, if they are unique and different.

10 Q. So it could be a range of options?

11 A. Yes.

12 Q. Has KU and LG&E considered whether a
13 special rate for schools could be a violation of KRS
14 278.035?

15 A. We don't believe it is, because it is a
16 pilot program. The companies aren't selecting it,
17 selecting the customers to be on it. The KSBA is
18 responsible in identifying those schools to go on
19 the rate.

20 And again, it is a pilot program to
21 collect data. There are costs that are involved in
22 implementing that pilot program, are they not, in
23 terms of a rate that is different for the schools
24 that are participating in the pilot program that --
25 that those schools would otherwise be under, and

1 that differential is then allocated to other
2 different rates classes.

3 As part of the settlement and stipulation,
4 everybody that signed on and agreed to the
5 reallocation of approximately \$750,000 for the
6 school's rate, and that was agreed to on totality
7 and we believe that is a reasonable resolution to
8 the case and for the pilot program to offer.

9 COMMISSION STAFF: Those are all the
10 questions. Thank you.

11 MR. SCHMITT: Commissioner Cicero, any
12 question?

13 **EXAMINATION**

14 **BY MR. CICERO:**

15 Q. \$750,000 or 1.5 million?

16 A. \$750,000. One for each company.

17 Q. Are there any specifics to this pilot
18 program or something that was just pulled out of the
19 air to determine, we're going to do a study. We
20 don't really have an idea on how we are going to
21 conduct it. We have some data that we're going to
22 gather, but we are not sure where it's going. Can
23 you give me specifics?

24 A. There is information in the record with
25 the testimony of Mr. Wilhite in this case and in

1 prior cases that talks about the low profile of the
2 schools.

3 Schools all are on different rates.
4 They're on rate PS, they're on rate TOD. There are
5 some for KU and on rate AES and they're on rate GS.
6 We can't identify every school there is in terms of
7 the low characteristics; we rely on Mr. Wilhite's
8 testimony and the information that he provided to
9 come to the conclusions to offer the pilot program.

10 Q. How many schools do you think will be in
11 this program?

12 A. That will depend on how much -- how large
13 the schools are and their low profile to how far the
14 \$750,000 can go. I don't have a sense at this point
15 to know how many schools that will end up being.

16 Q. So really this is pretty wide open at this
17 point from what I can tell and what your statements
18 are in regards to what the staff has asked. It's
19 \$750,000 for a program that was agreed to in a
20 stipulation based on testimony that was provided by
21 the KSPA and their witness and therefore you're
22 going forward as part of the stipulation; is that
23 correct?

24 A. Part of the stip -- the agreement that
25 everybody agreed to, yes. We are going to offer the

1 program. We'll evaluate the rates that they would
2 have been on compared to the new rates. And once we
3 get all the schools up to \$750,000, we'll close the
4 pilot and then evaluate.

5 Q. However many schools that is?

6 A. What's that?

7 Q. However many schools that is?

8 A. That's correct.

9 MR. CICERO: Okay. I have no other
10 questions.

11 MR. SCHMITT: Commissioner Logsdon?

12 MR. LOGSDON: No, sir.

13 MR. SCHMITT: I have no questions.

14 Counsel, any further questions?

15 APPLICANT STAFF: No, Your Honor.

16 MR. SCHMITT: Staff?

17 COMMISSION STAFF: Nothing further.

18 MR. SCHMITT: Counsel for any of the
19 Intervenors?

20 MR. CICERO: I have one more.

21 **CONTINUED EXAMINATION**

22 **BY MR. CICERO:**

23 Q. Mr. Conway, are you the one that we would
24 talk to about the bus program or would that be
25 someone else for LG&E KU?

1 A. I could be the one that you could talk to.
2 I'll do my best.

3 Q. As far as the bus study, I understand that
4 this is an opportunity for LG&E and KU to generate
5 more business possibly if the program is developed
6 where Jefferson county is able to have rates that
7 are supplied to make it competitive with diesel fuel
8 because right now the rates are like 27 cents
9 difference or somewhere thereabouts. And then based
10 on the number of buses they have, it's not cost
11 competitive. So, I am not questioning the fact that
12 a study needs to be done, although I am not certain
13 how much money is being dedicated to the study; that
14 is probably a question you can answer. Is it 40 or
15 \$50,000?

16 A. There's -- there's no money included in
17 the rates for the study. The company agreed to pay
18 for the study and the expectation would be that it
19 would be around 30 to 40 to \$50,000. There's a lot
20 of uncertainty of what we're going to end up doing
21 on the study. We'll be looking at infrastructure.
22 Are there different infrastructures that are needed
23 in the city of Louisville and the city of Lexington
24 to provide electric buses for the community?

25 We will look at rates to see if there are

1 types of any special rates or different rate
2 structures that would make it more economical to use
3 cleaner burning electricity for the buses. There is
4 no expectation on what the outcome is going to be.
5 We are going to work with the cities to determine
6 what we can come up with, if we can come up with
7 anything.

8 Q. So as I stated, I understand that there is
9 a benefit for both parties, so I believe a study is
10 probably a good idea. But from my prospective, I
11 have a hard time understanding why a bus study is
12 included in a rate case. To me, that is a separate
13 transaction that occurs between two parties outside
14 of a rate case. That's a business transaction that
15 has nothing to do with the rate case from my
16 prospective.

17 And other than the fact that the parties
18 in the case were the ones that we were talking to,
19 it has nothing to do with the rates that we're
20 charging customers in this case.

21 We do communicate with customers on an
22 ongoing basis and work with different parts of the
23 city, Lexington and Louisville. We've offered
24 charging stations for electrical vehicles, working
25 with those communities as well. We have worked on

1 LED lighting within the different cities.

2 Q. All of those are good things. I am just
3 trying to understand how this business transaction
4 is involved in the rate case. I think that as Mr.
5 Wheeler pointed out, fair, just and reasonable rates
6 are overseen by the Commission to make sure that's
7 what happened. And I am not sure how a study on
8 buses has anything to do with that. That's just my
9 two cents on it. I am not asking for your comment
10 on it.

11 MR. SCHMITT: No questions.

12 Yes, Ms. Sturgeon.

13 **REDIRECT EXAMINATION**

14 **BY APPLICANT STAFF:**

15 Q. One re-direct.

16 Although the shareholders will be funding
17 the study, if, in fact, information is derived from
18 that study that could result in new offerings in the
19 future, wouldn't those be rates that would be
20 subject to the jurisdiction of this PSC?

21 A. Yes. Anything that comes out of this
22 study for infrastructure or for rates would be
23 included in a future filing of this Commission.

24 MR. CICERO: My only comment to that would
25 be you could almost tie anything back with this

1 case. You have to get the first part done
2 under a business transaction and then if you
3 want to talk about rates, that's a different
4 story.

5 **EXAMINATION**

6 **BY MR. SCHMITT:**

7 Q. Mr. Conroy, shareholders are paid for the
8 cost of this study as opposed to other rate payers?

9 A. Well, the fact that it's not included in
10 our test year in this case, then it will not be
11 picked up in the development rates.

12 MR. SCHMITT: Commissioner Logsdon?

13 MR. LOGSDON: No questions.

14 MR. SCHMITT: Counsel?

15 APPLICANT STAFF: Nothing further.

16 MR. SCHMITT: Staff?

17 COMMISSION STAFF: One follow-up question,

18 Your Honor.

19 **RE-CROSS-EXAMINATION**

20 **BY COMMISSION STAFF:**

21 Q. You say that cost for the study will not
22 be recovered through base rates. But will the
23 expenditure be recorded as a line item in the
24 company's income statement, so that there is an
25 impact on the financial aspect for the company?

1 A. I would assume that it would be recorded
2 on our expenses. But again, with the forecast in
3 next year, it's not going to be included in the
4 record requirement for rates.

5 MR. NGYUEN: Thank you, Your Honor.

6 MR. CICERO: No further questions.

7 Yes, Mr. Cook.

8 MR. COOK: Thank you, Your Honor.

9 **RE-CROSS-EXAMINATION**

10 **BY INTERVENOR STAFF:**

11 Q. Mr. Conway, to your knowledge, with regard
12 to the existing electric charging stations, are
13 those also funded by the shareholders?

14 A. I believe there are charging stations that
15 are paid for by those who are actually charged to
16 the extent they cover that the revenue requirement
17 for those, otherwise, they're not picked up in
18 rates.

19 INTERVENOR STAFF: Thank you.

20 MR. SCHMITT: Any other questions?

21 Any others any questions from counsel for
22 the Intervenors?

23 If nothing further, Mr. Conroy you may
24 stand down at this time.

25 Let's take a 15 minute recess until 2:55.

1 (Thereupon, a brief recess was held.)

2 MR. SCHMITT: We are back on the record.

3 Before we proceed with testimony, we have a
4 couple of, I guess, housekeeping measures.
5 Mr. Chandler, would you care to introduce
6 additional counsel for the A.G.'s office?

7 MR. CHANDLER: I would love to take the
8 opportunity to do so. Also, here on behalf of
9 the Attorney General's Office is the Executive
10 Director of the Office of Rate Intervention
11 Rebecca Goodman.

12 MS. GOODMAN: Thank you, Your Honor.

13 MR. CHANDLER: We would also like to renew
14 our motions. We have three outstanding motions
15 for partial deviations from the binary
16 requirements. They are exhibits otherwise
17 filed electronically and due to their size, we
18 would ask for a deviation to provide the
19 hardcopies.

20 The motions were filed on March 16th,
21 March 31st and April 22nd.

22 MR. SCHMITT: Has any objection to the
23 motions been filed?

24 APPLICANT STAFF: No objections, Your
25 Honor.

1 MR. SCHMITT: Counsel for any of the
2 Intervenors, do you have any objections to the
3 motions? If not, motion sustained, and they
4 will be entered appropriately.

5 During the break, we had a discussion with
6 Staff. And because of time requirements of Mr.
7 Staffieri, we thought we could take another
8 witness out of order and then allow him to
9 perhaps leave. And that witness would be
10 Mr. Meiman.

11 APPLICANT STAFF: Yes, Your Honor.

12 MR. SCHMITT: With that understanding,
13 would counsel go ahead and call Mr. Meiman to
14 the stand.

15 APPLICANT STAFF: Mr. Meiman, please.

16 **GREGORY J. MEIMAN,**
17 the witness herein, having been duly placed under
18 oath, was examined and testified as follows:

19 **DIRECT EXAMINATION**

20 **BY APPLICANT STAFF:**

21 Q. Mr. Meiman, you did not file any testimony
22 in that case, did you?

23 A. That's correct.

24 Q. However, were you the responsible witness
25 on several data responses that have been filed in

1 the record in this case?

2 A. Yes, that's correct.

3 APPLICANT STAFF: Mr. Meiman is available
4 for cross-examination.

5 BY APPLICANT STAFF:

6 Q. I'm sorry. Would you state your name for
7 the record, please, and title. I'm very sorry.

8 A. My name is Gregory Meiman and I am
9 Vice-President of HR for the companies. My business
10 address is 220 West Main Street.

11 MR. SCHMITT: Staff, any questions?

12 **CROSS-EXAMINATION**

13 **BY COMMISSION STAFF:**

14 Q. Good afternoon, Mr. Meiman.

15 A. Good afternoon.

16 Q. I would first -- actually, all of my
17 questions are going to come from primarily the
18 response to the Sixth -- the Staff's Sixth Data
19 Request. So if you have that in front of you?

20 A. Yes. I will pull that up. Yes, ma'am.

21 Q. Thank you.

22 The data that's provided in here is in the
23 aggregate for Kentucky Utilities and Louisville Gas
24 and Electric; is that correct?

25 A. That is correct.

1 Q. And Staff is aware of the way the question
2 was asked. Can you tell me in considering or
3 calculating KU's portion of this, did you consider
4 the entirety of KU or strictly the jurisdictional
5 portion of KU that applies to Kentucky?

6 A. The ultimate expense that does get
7 allocated to KU would be the jurisdictional portion.
8 The responses are presented at a plan level, because
9 that is how we administer the plan and account for
10 the plan, at an aggregate plan level.

11 Q. If we were to ask you to break these out
12 into KU jurisdictional, would that be possible?

13 A. I think the information that we've already
14 filed with regard to the forecasted test period
15 actually has been broken out by the jurisdictional
16 amounts.

17 Q. Okay. I just wanted to confirm that.
18 Thank you.

19 A. Yes. And keep in mind, if I may.

20 Q. Please.

21 A. The -- that request that we received, we
22 did endeavor to provide some information that we
23 thought would be useful and very responsive. And as
24 such, we did use actual 2016 data. And so it does
25 reflect real numbers of the plan.

1 Q. And we noted that -- the Staff noted that
2 and we thank you.

3 A. Thank you.

4 Q. Could we start by looking at the response
5 to Question 1, Item B, and also Attachment 3 is
6 really what we are looking at. This question was
7 regarding health insurance costs and calculating
8 them in a particular way?

9 A. Yes, ma'am.

10 Q. And this is a -- as a post-hearing data
11 request. And for Counsel's benefit, this will be
12 written up and provided in written form afterwards.

13 APPLICANT STAFF: Thank you.

14 BY MS. VINSEL:

15 Q. So for Attachment 3, if you could provide
16 that same information for the non-union medical
17 enrollment by benefit plan, by coverage level, by
18 salary, exactly the same. I -- we would ask two
19 changes. The first is in the formula. Keeping the
20 assumption about employee contributions, the 21, 32
21 percent split that was asked originally, if you
22 could calculate the total health care and medical
23 cost by adding the employer premium contribution,
24 employee premium contribution, so omitting the
25 deductibles. And we would ask that they be provided

1 or broken out KU jurisdictional, by LG&E Electric
2 and LG&E Gas?

3 A. Okay.

4 Q. Going next to the response, to 1D and
5 Attachment 6 to that question. And 1D is referring
6 to the dental costs. If you could provide in that
7 same -- the same format as Attachment 6 in terms of,
8 again, nonunion dental enrollment by benefit plan,
9 coverage level and salary administration, but with
10 the following changes. In the formula, one of the
11 changes will be that there would be an assumption
12 that employees pay 60 percent of the cost rather
13 than that 21, 32 percent from the original question.

14 We would also ask that the total dental
15 cost be calculated by adding employer premium
16 contribution and employee premium contribution. And
17 again, breaking this out by KU jurisdictional, LG&E
18 Electric and LG&E Gas.

19 A. Subject to making sure that the
20 information is available from the carrier, we will
21 do that, yes.

22 Q. Thank you.

23 Thank you for your patience with that.

24 Looking at 1E, the response to 1E, which
25 is in regards to long-term disability, as we heard

1 from Mr. Staffieri, the companies conduct a
2 benchmarking every year. Is there a benchmarking
3 performed for the long-term disability insurance?

4 A. With regard to the benefit package, I
5 think it is important to note that we do look at it
6 in the aggregate and it is a combination of a lot of
7 complex information, a lot of information with
8 regard to the market in terms of what is changing,
9 what is not changing. And with regard specifically
10 to certain of the, what we would call ancillary
11 benefits. So, benefits that typically do not change
12 on an annual basis. Those are looked at on a
13 periodic basis, typically, in conjunction with our
14 union negotiations as we prepare and see what
15 available benefits are being provided by other
16 employers. And so there is annual benchmarking with
17 regard to medical benefits, because that is more
18 subject to change and more volatile in terms of what
19 the offerings in the marketplace are.

20 Q. So due to the nature of the benefit, the
21 ancillary benefit, the union negotiations, it's not
22 been part of the benchmarking?

23 A. We, just to be clear, we get and we are
24 always receiving information on the marketplace. We
25 annually consult with Mercer on our benefit package.

1 And in conjunction with that, we do -- we do receive
2 information with regard to the benefits that are
3 being offered in the marketplace.

4 Having said that, we also participate in a
5 number over groups where we receive information with
6 regard to benefit changes, evolution in the
7 marketplace. We're tracking union contracts to see
8 what sort of benefits are being negotiated by other
9 unions. And so our folks are always out there and
10 consistently looking at what sort of changes are
11 occurring in the benefit marketplace. So, I think
12 that answers your question.

13 Q. It does. Thank you.

14 A. And I apologize in advance if I get too
15 carried away. I get excited about this stuff.

16 Q. That is completely all right. I do too.

17 When you talk about, and again looking at
18 the long-term disability, are you seeing -- well,
19 let me back up. Excuse me. Because the companies
20 do pay 100 percent of this benefit, and in one of --
21 in your answers there is a footnote, you provide a
22 footnote to the Bureau of Labor Statistics cite and
23 provided a lot of tables. And one of the tables,
24 although the table cited in that footnote is not
25 what I would reference. I looked at Table 28 and it

1 showed percentages of who is offering
2 employer/employee contributions long-term
3 disability. I want to make sure I get all of this
4 out correctly.

5 A. Okay.

6 Q. Are you seeing any trends in moving
7 towards employers not paying 100 percent of that
8 cost?

9 A. Well, one of the -- one of the factors
10 that we do look at, obviously, would be general
11 industry and then also with regard to utilities and
12 what they are offering. And I think it is important
13 to keep in mind that as utility, we do endeavor to
14 provide a very comprehensive cohesive set of
15 benefits that are influenced by a number of factors.
16 The factors are, as we have talked about already,
17 one, the cost to our customers is obviously
18 important, the cost to our employees, the benefit
19 packages that our employees need to have the type of
20 coverages that they need and want. And so we offer
21 a variety of options for them in our benefit
22 packages.

23 The fact that we are a utility and the
24 folks are dealing with very -- many of the folks are
25 dealing with very dangerous situations in their

1 normal day-to-day work. Disability is one of those
2 benefits that gives them some comfort. So, the
3 folks that we are asking, you know, to work 24/7,
4 365 days a year, their families can have some degree
5 of comfort that we are taking care of them in the
6 unfortunate event that something happens. And
7 certainly, safety is a primary objective of our
8 company and, you know, the benefits that we
9 construct, whether it be a medical plan in terms of
10 the various options that we offer so that people can
11 tailor their benefits the way they want to meet
12 their unique circumstances, whether it be family
13 members or single coverage, all of those things kind
14 of influence our overall view of how we construct
15 the benefit package. And so it is very complicated
16 and there are a lot of moving parts, changes in law.
17 There are changes in demographics in our plans,
18 obviously, as people retire, etc.

19 And so we are constantly keeping track of
20 all of those moving pieces to try to provide some
21 benefits to give our folks the comfort they need.

22 In H.R., our job is track and retain
23 people. And we feel like we can attract people that
24 we need. Although we don't have a long line of
25 qualified people always outside of our door for some

1 of our positions, but with regard to retention,
2 certainly the benefit package is a key element in
3 all of that.

4 And to your point, in general industry, I
5 would say that there probably has been a trend away
6 from disability coverage. Once again, though,
7 within the utility industry I think we are in line
8 with where we need to be.

9 Q. Thank you.

10 In your response to 1E, you provided the
11 total employer cost --

12 A. Yes, ma'am.

13 Q. -- 1.69, a million dollars for the
14 long-term disability. As opposed to hearing data
15 request, could you provide a schedule that breaks
16 down that amount, the cost for the long-term
17 disability premiums paid by the company, by KU
18 jurisdictional, by LG&E Electric and by LG&E Gas?

19 A. Yes, I believe we should be able to do
20 that subject to check from the experts back at the
21 office.

22 Q. And similarly, with your response to 1F,
23 which is in regards to the premiums for the group
24 life coverage in excess of \$50,000. And again, we
25 have got the aggregate amount.

1 A. Yes, ma'am.

2 Q. As opposed to a data request to provide
3 that cost for the premiums paid for the group life
4 insurance coverage in excess of \$50,000 broken out
5 by KU jurisdictional, LG&E Electric, LG&E Gas?

6 A. Yes, ma'am. Subject to the same sort of
7 check.

8 Q. Understood.

9 A. Right.

10 Q. Moving onto your response to Item 3 and
11 the attachment to that; this question is in regard
12 to the retirement plans.

13 A. Yes, ma'am.

14 Q. And I know in the response to -- Staff's
15 Fourth Data Request Item 1, you provided some -- a
16 good overview and information about contributions.
17 Can I clarify and make sure that we are
18 understanding what retirement plans are offered at
19 LG&E KU?

20 A. Absolutely.

21 Q. There is a defined benefit plan for which
22 anyone hired before January 1st, 2006 are eligible?

23 A. That's correct.

24 Q. Going forward, there is a defined
25 contribution plan, which is a savings plan, which at

1 the employee's selection can either be a 401K pretax
2 or a Roth IRA post-tax; is that correct?

3 A. That is correct.

4 Under that same -- I don't know if you
5 want me to go ahead, but under that same plan, there
6 is what we call a retirement income account, which
7 is an employer only dropped into their individual
8 account. And, you know, the rationale behind that
9 really is that when we made the change back in 2006,
10 we were coming off the heels of a major reduction in
11 2001 in our employee population. So, in 2006, we
12 did -- to the point I made earlier about watching
13 trends, etc., we -- we saw an emerging trend of
14 people closing their entry into defined benefit
15 plans. And as such, we were one of the early
16 adopters, I think from a utility prospective in
17 terms of making that change.

18 We did allow those that were presently in
19 the plan, to your point, to continue to participate
20 in the plan. And the rationale behind that really
21 was that was the deal that we had made with those
22 employees. We had asked them to be part of our
23 organization for their full career. We rely heavily
24 on their expertise and their knowledge and, once
25 again, we had just lost a number of folks in the

1 2001 early retirement program. And so it was
2 imperative for us to retain those folks and get that
3 knowledge transfer from them to the next generation
4 of utility workers.

5 So, when we looked at it, there were a
6 variety of options in terms of replacement plans.
7 But the thing that made sense to us is that it would
8 have been a combination of something that the
9 employer would contribute along with the employee
10 contributing their own money. They would have to
11 have their skin in the game, if you will, in order
12 to participate or to ultimately reach their
13 retirement goals. And it should be pointed out that
14 none of these plans are full income replacement. In
15 other words, it is a combination of the various
16 factors. The point that I haven't made yet, which I
17 expect you were going to ask, is that for those in
18 the defined benefit plan, they may also participate
19 in the defined contribution plan.

20 And the reason for that is, once again,
21 that the defined plan alone would not provide
22 sufficient retirement income for them and as a
23 utility, we are really seeking to hit a sweet spot
24 with regard to the physical workers in terms of
25 being able to provide them a benefit at a reasonable

1 retirement age. So, if they are inclined not to
2 climb a pole anymore at age 70, they can retire. So
3 that was sort of the sweet spot that we were trying
4 to hit. And with a combination of those benefits,
5 they -- we feel we do a very good job of hitting it.

6 Q. Thank you.

7 Going through to make sure I do not ask
8 you again what you've already answered. That was
9 very thorough.

10 A. Feel free to clarify.

11 Q. As a post-hearing data request, could we
12 get broken out by KU jurisdictional, LG&E Gas and
13 LG&E Electric, I want to make sure I get this right.
14 Employer and if any employee contributions that you
15 can provide for both a defined benefit and the
16 defined contribution.

17 A. Just to be clear and, you know, I think
18 that, once again, if I get too far into this, please
19 let me know. But with regard to pension plan, the
20 funding of that plan is in the aggregate. It's not
21 by employee. And it is projecting to have
22 sufficient assets at the end of each individual's
23 working or anticipated retirement set aside in a
24 trust so that we can pay that benefit we promised
25 over their remaining life.

1 And so there really isn't a particular
2 dollar amount associated with each individual. I
3 just want to make sure that you understand that.
4 And I do believe in the prior data responses, we
5 have provided that the cost that is associated with
6 the pension plan, along with the other plans that we
7 have been talking about, the defined contribution
8 plan.

9 Q. Okay. One moment, please.

10 A. Sure.

11 Q. We will -- for Counsel's benefit, we will
12 go back and double check something that we may
13 include in the post-hearing data request, just to
14 let you know.

15 We are turning to the attachment to
16 response to Item 3. First, looking at the first
17 schedule that's showing the employee -- answering
18 responses to 3B and 3C providing the 401K company
19 match for employees who participate both in the
20 retirement plan prior to January 1st, 2006. Subject
21 to check, looking at the 401K company match row, can
22 you confirm that the total amount of the 401K
23 company match is \$7,718,188.00?

24 A. So you have essentially added the
25 bargaining unit, the exempt, the hourly, the

1 manager, the non-exempt and officer numbers --

2 Q. Yes.

3 A. -- across and come up with the 7 million
4 dollars?

5 Q. Yes.

6 A. Yes. That would be correct then.

7 Q. Okay. And similarly for the schedules for
8 E and F, the 401K company match, the total, subject
9 to check confirming the total amount for that
10 company match is \$4,512,000.00?

11 A. Once again, if you have added those
12 numbers, yes, that is correct.

13 And I do recall that there is some issue
14 with trying to break some of those dollars out by
15 jurisdiction. But subject to whatever you request,
16 we will once again see what we can come up with to
17 satisfy that data request.

18 It's a function really of the dichotomy
19 between the different systems that are accounting
20 for -- that are keeping track of participants and
21 whether or not they can be coded as such that
22 corresponds directly into the accounting system.

23 In the aggregate, all of these numbers tie
24 back in, which is good. And so it is just a matter
25 of once you get down to the individual level and

1 what bucket they go into, it does create some
2 issues -- once again, they're different systems.

3 Q. Okay. I have one more question. It's
4 more a general question and it's really derived from
5 an exhibit from Mr. Blank that he filed with his
6 direct testimony. It's Exhibit KWB-1. And this is
7 the Form 1 benchmarking, top core performance.

8 If you will please tell me when you get
9 that up.

10 A. Yes. Thank you.

11 Q. In -- in reviewing these charts looking at
12 the total ONM generation, distribution, customer
13 service transmission, in each of these items, LKE,
14 and understanding that that is the larger entity
15 there. In every one of those, LKE is below the top
16 core tile and significantly below the individual
17 average. We with noted that in A&G it seems to be a
18 little different where LKE is above the top core
19 tile, still below the individual average. Can you
20 explain what that reflects why the A&G would be
21 atypical from the others? Is there a reflection of
22 salary and benefits or what role does that play in
23 that?

24 A. Unfortunately, I would have to defer to
25 Mr. Blake on that.

1 Q. Okay. Thank you.

2 A. Uh-huh.

3 COMMISSION STAFF: I have no more
4 questions at this time.

5 MR. SCHMITT: Mr. Cicero, questions?

6 **EXAMINATION**

7 **BY MR. CICERO:**

8 Q. In your life insurance response --

9 A. Yes, sir.

10 Q. -- you referenced a Bureau of Labor
11 Statistic report in benchmarking?

12 A. Yes, sir.

13 Q. Do you typically use Bureau of Labor
14 Statistic reports and what category do you normally
15 use, all employees or under the utility
16 transportation category?

17 A. We refer to the Bureau of Labor Statistic
18 benchmark in this particular response, honestly,
19 because we thought that was a benchmark that has
20 been referred to by the Commission in a previous
21 case. And so we looked at that to try to understand
22 the -- what we were trying to respond to. And in
23 that response, we noticed that the type of benchmark
24 that was in the prior case, was a different type of
25 plan than ours. So we went ahead and drew the

1 correlation between that benchmark and our plan in
2 an effort to be clear in terms of the type of plan
3 that we had, which was a multiple of salary, which
4 is a different measure, as opposed to a flat dollar
5 plan.

6 Q. You would use all employees rather than
7 comparing to a utility transportation group?

8 A. Well, with regard to our benchmarking
9 generally, we refer both to general industry and
10 utility benchmarks when we are looking at our
11 benefit programs. With regard to the ability to
12 see -- with the idea of seeing what is being offered
13 both in the general industry and utility sector.

14 Q. The reason I am asking is it makes a
15 difference in the midpoint when you're utilizing it
16 for your 50th percentile.

17 A. Right.

18 Q. And one benchmark is \$150,000 and the
19 other one is \$100,000 and that makes a difference in
20 comparison of what you're trying to establish in
21 terms of competitive marketplace?

22 A. Yeah. The one benchmark that I recall,
23 actually had a median of \$250,000.

24 Q. \$150,000 is the high point for utility
25 workers. That's the maximum. Your plan is \$300,000

1 maximum and your average \$150,000.

2 A. Yes, sir.

3 Q. So it appears you're using all workers,
4 not utility workers. Is there a reason for that?
5 I'm trying to understand that point.

6 A. Once again, with regard to responding to
7 this question, we understood that the Commission had
8 looked at the Bureau of Labor Statistic benchmarks
9 previously.

10 Q. Which I understand. This is just what
11 category in the Bureau of Labor Statistic report
12 category-wise. There is all workers category and
13 there is a category that's referred to
14 transportation, union and something else. I forget
15 what the third piece of that is. But utilities
16 typically fall, under a different category than all
17 workers and there is a different benchmark,
18 50 percentile is what I am referring to.

19 A. Perhaps -- Andrea, can you pull that up
20 please, the actual benchmark?

21 Q. I can assure you that is the case. I am
22 just curious why it's all workers versus utility
23 workers. So I am just curious as what the
24 philosophy is for KU LG&E as far as what line do you
25 use in the Bureau of Labor Statistic report. We

1 think that's a good source of information, but I am
2 curious why you are picking one category over
3 another category.

4 A. So, I want to be clear that with regard to
5 our benchmarking, typically, we would not look at
6 Bureau of Labor Statistic benchmarks. And part of
7 the issue that you might run into is whether or not
8 the sample size corresponds with the appropriate
9 sample size. There are a variety of employers that
10 are included in some of the benchmarks, etc.

11 So, what we do is we do absolutely look at
12 benchmarks. And what I am trying to be clear about,
13 and maybe I'm not doing it very well, but we look at
14 both general industry and utility benchmarks. We
15 were fashioning a broad array of benefit plans.

16 Q. That was a beat-around-the-bush answer,
17 but that's okay. You really didn't answer why you
18 are using one over the other. I understand there is
19 a basis for both. But when there is a difference in
20 the line item, it would be good to have a basis of
21 why you were choosing what you are choosing.

22 A. I think we were --

23 Q. You took the Bureau of Labor Statistics
24 report based on a past historical precedence that
25 you believed the Commission set by referencing it to

1 another case. Is that what you said in the
2 beginning?

3 A. Yes, sir.

4 Q. So --

5 A. That's -- that how we got there.

6 And we were honestly scrambling a little
7 bit. The questions came in on Tuesday and we were
8 endeavoring to be very responsive and so we -- we
9 did try to reference the Bureau of Labor Statistics.

10 Q. So, anything over \$50,000 from an IRS
11 prospective has to be included in an employee's W-2
12 earnings, correct?

13 A. You're correct. You're referring to the
14 group term life insurance rules that there is an
15 imputed income amount --

16 Q. Right.

17 A. -- for the employee if you provide
18 coverage over \$50,000.

19 Q. Does KU LG&E gross that amount up to cover
20 taxes?

21 A. No, sir.

22 Q. Okay. Your maximum seems a little bit
23 high, but we'll let that go.

24 What -- how much -- what is employee
25 turnover? You've referenced in your benefit

1 package, you've talked about keeping the employees
2 happy. You've talked about hitting a sweet spot, a
3 number of things. I didn't hear competitive, but
4 I'm presuming competitive is one of the keys to the
5 whole package.

6 What is your employee turnover?

7 A. Last year it was in the single digits and
8 most of that was due to requirement.

9 Q. And do you benchmark that against some,
10 kind of industry study out there that says this is a
11 typical turnover ratio in utilities or in the
12 industry in general?

13 A. We -- we do look. But, candidly, there
14 are so many unique circumstances associated with the
15 companies, and, you know, I appreciate that.
16 Certainly, you know, we like to try to figure out is
17 that the right number or wrong number, and we do
18 track on a regular basis real-time our turnover, our
19 retirements. We conduct exit interviews to
20 understand why people are leaving the company. So,
21 we are very keen on understanding what is motivating
22 our employees to stay or go.

23 Q. So looking at your employee turnover,
24 which you said is primarily retirements?

25 A. Last year it was, yes, sir.

1 Q. Do you consider that, whatever that net
2 turnover amount is, excluding retirements to be low,
3 average or above average for the industry?

4 A. We would be low compared to the industry.
5 And I would like to say that that is the function of
6 the fact that it's a very good place to work. We --
7 we have a very good environment for our employees
8 where they are able to come to work, enjoy what they
9 do. It's a very collegial atmosphere. And candidly
10 it's one of the best places I have ever worked and I
11 have worked a few. And I think that is attributable
12 to the fact that we do have a good management team
13 and we do have a good situation for people to feel
14 like they are contributing to the greater good.

15 Our emphasis on safety, we hear that all
16 the time when we go and recruit that people like to
17 come to our company because they know we care. And
18 so, all of those things I think combined to help us
19 retain folks in our company.

20 Q. So culture is always important in the
21 environment to making people happy and compensation
22 is also a factor as well. Have you ever had a work
23 stoppage by your bargaining unit?

24 A. Well, before my time, yes, we did, and
25 fortunately I was not there for that. But we do

1 engage in regular negotiations with the union. We
2 have, I think, a good relationship presently with
3 our union and there is one of, I think, mutual
4 respect there with regard to, you know,
5 understanding and working through their concerns.
6 But there is also, you know, our role as management,
7 and so it's a very good relationship.

8 Q. When was the last work stoppage?

9 A. I am unsure. We could follow-up a
10 post-data request if that would help. I really
11 don't know. I really would be speculating.

12 Q. What I'm driving at is, I understand it's
13 always important to have a good culture, that it's
14 always important to compensate people fairly. What
15 I'm driving at, is your plan richer than it needs to
16 be? You have not had a work stoppage, which means
17 that you are obviously bargaining in good faith with
18 your represented employees. Your turnover is
19 basically retirements only. Is your plan above
20 where it needs to be to retain people, quality
21 people, because you're obviously, you know, you can
22 say that I don't want turnover and I understand
23 that, and you don't want a work stoppage, I
24 understand that. But at what point do you go beyond
25 being competitive to being overly generous and the

1 rate payers are paying for that?

2 A. That certainly is a fair question. And I
3 would say that I absolutely do not believe that our
4 packages or our benefits are overly rich.

5 As we have talked about, we do look at the
6 entire package in the aggregate, considering a lot
7 of moving parts. There is the compensation element,
8 which, once again, we benchmark that on an annual
9 basis. There is the medical plan, which are the two
10 key drivers of what people like to focus on with
11 regard to their employment. And we benchmark that
12 annually. And then you have referenced the, you
13 know, is the retirement benefit too generous, once
14 again, we, I think, have been very aware of keeping
15 track of what the benchmarks look like in terms of
16 offerings for employees to provide a reasonable
17 retirement benefit to them. And I do not believe
18 that we would -- we would be in the category of
19 providing too rich of a benefit.

20 Q. All right. That's a good lead into the
21 next set of questions because it all has to do with
22 retirement.

23 A. Okay.

24 Q. So you confirmed already that you have a
25 defined dollar benefit plan and it was not a lock-in

1 freeze. You continue to accrue benefits and you
2 make your actuarial contribution into the plan as
3 whatever that amount of money is determined to be;
4 is that correct?

5 A. You are correct. We have a defined
6 benefit plan and the -- well, the liabilities of the
7 plan are determined and the amounts needed to fund
8 that benefit for the ultimate retirement of those
9 individuals is contributed to the plan. It's not
10 real-time, because there are certain assumptions
11 built into it, as you already know. There are a
12 number of assumptions built in to what that
13 contribution needs to look like depending on what --
14 when you think people will leave, what benefit
15 commencement dates there will be. There is also
16 what sort of return you will be able to achieve on
17 the assets that you've contributed to the plan. And
18 so there are a whole list of assumptions that you
19 already know that go into that determining that
20 contribution amount.

21 Q. Which is my next question. You would
22 agree that applying dollar benefit plan provides a
23 fixed benefit for an employee based on several
24 variables, including years of service, salary, other
25 factors. The employee is not contributing anything

1 in this plan, but he will receive a benefit placed
2 on a plan that is allowed by the government that
3 says this is your defined benefit plan and this is
4 what you will pay that employee when he retires; is
5 that correct?

6 A. Well, sir, I would agree that there are no
7 longer contributions to the defined benefit plan.

8 Q. There is no employee contribution --

9 A. No employee contribution.

10 Q. Because you are still accruing -- they are
11 your employees and they are accruing benefits in
12 this plan; are they not?

13 A. Yes, they are accruing. And once again,
14 they are not making a financial contribution, but
15 they are working and so that is part of it.

16 Q. We all work to earn our retirement, I
17 agree.

18 A. Yes. So, I mean, they are contributing in
19 that regard.

20 Q. I am talking about monetarily.

21 A. Yes, sir.

22 Q. Thank you.

23 Monetarily, they do not contribute to this
24 plan?

25 A. You're absolutely right.

1 Q. Thank you.

2 So that being kept in mind, they belong to
3 a plan that is of a dying breed, would you agree
4 that -- which is probably one of the reasons you
5 converted yours to a retirement income account,
6 correct? Anyone after -- on or after 1/1/2006 now
7 belongs to a retirement income account?

8 A. So, there were a couple of statements
9 in -- in your question. With regard to it being a
10 dying breed, clearly they aren't as prevalent as
11 they were a number of years ago. I recently saw a
12 study from Towers Watson, who's our consulting
13 actuary that indicated that there still are a number
14 of Fortune 500 companies that have open plans.
15 There are a number of Fortune 500 companies that are
16 similar to us in that they have a soft freeze where
17 they closed it to new participants, but there is
18 still an accrual of benefits.

19 So, with regard to that, there is no
20 question that the prevalence over the last number of
21 years certainly has diminished.

22 Once again, the rationale that we kind of
23 went through when we were looking at what to do, we
24 were an early adopter, so we felt we were being very
25 prudent and we still do in terms of the benefits

1 that we offer to our employees. And with regard to
2 defined benefit, that was the deal that we made that
3 those folks that we were seeking a commitment from
4 them to work their career with us. And we did want
5 to retain their knowledge. We did want to retain
6 their expertise. And we were asking them to
7 sacrifice with regard to the type of work that we
8 were asking them to do, whether it be dangerous or
9 whatever, not in any way to diminish the
10 contribution of any other employee or any other
11 employer.

12 I get it. There are certainly other
13 occupations that are equally difficult, etc. With
14 regard to our folks, the utility business is unique
15 and I think we do need to -- we did need to provide
16 that benefit. We continue to need to provide that
17 benefit as they have transferred their knowledge to
18 the next generation of workers.

19 Q. So I'm referring to, statistically
20 speaking, it's about 10 percent of companies today
21 that offer a defined dollar benefit plan. And I
22 have no problem with a lock-in freeze or a non
23 lock-in freeze. You started these people off in a
24 defined dollar benefit plan. That's fine. I am
25 trying to lay the groundwork here because you made a

1 statement that the defined dollar benefit plan
2 participants also participate in the Salary
3 Saving -- 401 Salary Plan Company Match, correct?

4 A. So with regard --

5 Q. Let me -- I just want you to confirm that,
6 correct? They do participate in both plans?

7 A. Correct.

8 Q. You made a statement that you said that
9 you were trying to hit a sweet spot, and provide a
10 plan that is competitive or provides benefits that
11 your employees need. Now defined dollar benefit
12 plans are considered rich plans. They're a high
13 risk plan and that's why companies moved away them.
14 Because trying to determine liability through an
15 actuarial calculation was difficult to do. A lot of
16 them became unfunded. Take the state of Kentucky.
17 If you don't fund enough money in your pension plan,
18 you've got a defined dollar benefit, it becomes
19 pretty difficult. So, you have gotten away from it.
20 I understand that. But why in the world is it
21 necessary to offer two requirement plans when one is
22 a defined dollar benefit plan and going beyond that,
23 the second part, let's just go into the 401K,
24 because you offer up to 7 percent based on years of
25 service and you're offering up another 7 percent in

1 this company match.

2 You have already established that the
3 total amount for the defined dollar benefit plan
4 participants in that is 7.7 million and we have
5 already established that the cost for participants
6 that are also on 401K plans, 4.4 million dollars.
7 So we have \$12.1 million in costs associated with a
8 redundant savings or retirement plan. Whatever you
9 wanted to call it. Don't you think that is a little
10 bit over the top in terms of compensating benefits
11 when you've got people that are rate payers that
12 don't even actually have a retirement plan?

13 A. So, once again, there was a number of
14 segments in that.

15 Q. I know there was.

16 A. And I really do want to try to address all
17 of them.

18 Q. I decided I had to get it in before --

19 A. You were on a roll.

20 So I guess there -- there, I guess, are
21 couple things. One, as I eluded to earlier, none of
22 these plans are full income replacements. So, when
23 you talk about the fact that there is a defined
24 benefit plan or a pension plan that will provide a
25 monthly benefit to someone, please understand that

1 doesn't replace their income or all of their income,
2 you know.

3 Q. I don't want to interrupt you, but I have
4 to. I don't know of any retirement plan that
5 provides 100 percent replacement monthly income.
6 That is not a typical average in the workplace plan.
7 That doesn't exist.

8 A. You're absolutely right. But the point is
9 all of the defined benefit plans that employers
10 offer, they come in different shapes and sizes and
11 different benefit structures, etc., as you are well
12 aware.

13 And so the other piece of what you said is
14 that I may have created some confusion with the
15 previous response and I want to be clear that the
16 portion of the savings plan and think of it as an
17 umbrella. So, there's an umbrella plan that has
18 various components to it. One component is this
19 retirement income account. And you referenced a 7
20 percent, which I believe it's referring to that
21 portion of the plan which these folks do not
22 participate in. So if you're the pension plan, you
23 don't participate in that --

24 Q. If you're in the defined dollar benefit
25 plan, you do not participate in the retirement

1 income account.

2 A. Yes, sir.

3 Q. I understand that.

4 A. Yes, sir.

5 Q. But both of those groups participate in
6 matching 401K plans; am I correct?

7 A. You are correct.

8 Q. The value of that is 12.1 million dollars.
9 That is my point.

10 A. That -- that is the company match. Once
11 again, employees must contribute in order to
12 participate in that plan.

13 Q. That's great that the employees
14 contribute. But the rate payers pay 12.1 million
15 dollars in retirement for a plan for employees that
16 already participate in a plan that's company fully
17 funded. That is my point.

18 A. And I appreciate your point. And once
19 again, my point would be that in the aggregate, if
20 you're looking at the benefit structure that we are
21 providing to our employees, then, you know, I don't
22 think that you could say that what we are doing is
23 unreasonable or needs improvement.

24 Q. Well, we could say whatever we wanted to
25 at this point.

1 A. Yes, sir.

2 Q. But I made the point that I think I wanted
3 to make and I appreciate your comments and answers
4 to the questions you made.

5 Mr. Chairman, I have no other questions.

6 MR. SCHMITT: Commissioner Logsdon, do you
7 have any questions?

8 MR. LOGSDON: No, sir.

9 MR. SCHMITT: Staff?

10 APPLICANT STAFF: The Staff has nothing.

11 MR. SCHMITT: Counsel for any of the
12 intervenors wish to question the witness?

13 That being the case, may this witness be
14 excused?

15 COMMISSION STAFF: Yes.

16 MR. SCHMITT: What about Mr. Staffieri?
17 Mr. Conroy, you may step down and you may be
18 excused and so may Mr. Staffieri.

19 APPLICANT STAFF: So may Mr. Staffieri --

20 MR. SCHMITT: Yes.

21 APPLICANT STAFF: Thank you, Your Honor.

22 May I call Mr. Seeyle?

23 MR. SCHMITT: Yes.

24 =====

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WILLIAM STEVEN SEEYLE,

the witness herein, having been duly placed under oath, was examined and testified as follows:

DIRECT EXAMINATION

BY APPLICANT STAFF:

Q. Mr. Seelye, will you state your name and business address.

A. My full name is William Steven Seelye. I'm the managing partner of The Prime Group. My business address is 6001 Claymont Village Drive, Suite 8, Crestwood, Kentucky 40014.

Q. Thank you.

Mr. Seelye, you filed several different pieces of testimony, responses to data requests which -- some of which have been corrected in two different erratas. Subject to those erratas, do you have any other corrections to your testimony today?

A. No, I do not.

Q. Okay. If I asked you all of those questions, would your testimony and the responses, again subject to the errata, if we asked you the same questions today, would your answers be the same?

A. They would.

Q. Thank you, Mr. Seelye.

1 APPLICANT STAFF: Mr. Seelye is available
2 for questioning, Your Honor.

3 MR. SCHMITT: Cross-examination, Staff?

4 **CROSS-EXAMINATION**

5 **BY COMMISSION STAFF:**

6 Q. Yes, Your Honor. Thank you.

7 Good afternoon, Mr. Seelye.

8 A. Good afternoon, Mr. Ngyuen.

9 Q. A couple of the Intervenors in this
10 proceeding were opposed to the increase in the
11 residential basic service charges, that involve
12 testimony related to those costs of services those
13 parties; is that correct?

14 A. That's correct.

15 Q. Okay. So, specifically, there were the
16 witnesses for the Attorney General and The Sierra
17 Club; is that correct?

18 A. That's correct.

19 Q. You addressed those witnesses for the A.G.
20 and for The Sierra Club in your rebuttal testimony;
21 is that correct?

22 A. Correct.

23 Q. Okay. Can you explain in your own words
24 the position of the A.G. and The Sierra Club
25 specifically how they calculated the basic service

1 charges and how it differs from the company's
2 calculation?

3 A. Yes. The way they calculated it was to
4 include two different components. One, was a meter
5 and meter-related expenses and service costs, which
6 is line that goes from the -- like the service
7 property line to the house. They included that.

8 The company's cost of service study, we
9 included -- and I will say that even in the A.G.
10 cost of service study, they handled costs very
11 similar to ours. But we also included a minimum
12 portion of transformers as well as secondary lines.
13 Because when you hook up a new customer, any size,
14 you have to extended the line. You have to put in a
15 transformer. So we put essentially a statistically
16 determined minimum value in the customer cost. But
17 in the cost of service study for the A.G., they
18 handled those costs the same way we did.

19 In calculating the cost of customer
20 charge, they calculated theirs based just upon the
21 meter and the service line, not any transformer
22 costs, for example, or secondary lines.

23 Q. Okay. So with the inclusion of
24 transformer cost and the secondary lines, would it
25 be your position that the company's cost of service

1 increases the energy charge?

2 A. For LG&E rate design where there is a rate
3 like that, yes, it is correct.

4 Q. When you say there are two parts --

5 A. It's a basic service charge and an energy
6 charge, if that's the only component. In the case
7 of LG&E, those are the only components, therefore,
8 it is correct.

9 Q. Right.

10 So we're basically talking residential
11 customers?

12 A. Yes. Right. Residential general service
13 rate.

14 Q. Can you explain why that's the case?

15 A. They -- you have got two components. If
16 it's not in the basic service charge, it's in the
17 energy charge. Therefore, an average customer will
18 pay exactly the same, either -- wherever you have
19 the dollars.

20 But with a customer that has above average
21 usage, if you're putting it more in the energy
22 charge, those customers will pay more. And if you
23 are putting less in the basic service charges, they
24 will pay more.

25 Q. Okay. And do you have other utilities

1 that you are on retainer for?

2 A. Yes. Many.

3 Q. Okay.

4 A. Oh, retainer.

5 Q. Well --

6 A. Many utilities that I work for.

7 Q. Does the low income customer usage for
8 LG&E and KU customers being typically higher than
9 the average residential usage -- higher residential
10 usage customers. Let me repeat that question again.

11 For the LG&E low income customers who,
12 according to Mr. Conroy's testimony, uses higher
13 energy than the average residential customer --

14 A. For other utilities?

15 Q. -- are they typical for other utilities?

16 A. Every utility that I've worked with where
17 we have used this data, low income customers use
18 more on average than the average customer or the
19 typical customer. What I mean by typical customer
20 is the average consumption.

21 Q. Yes.

22 A. And so it's not -- I've worked in Las
23 Vegas, the same situation exists there. Kansas,
24 Colorado. About every place that I've worked, I see
25 the same.

1 Q. So LG&E KU's low end customer usage is not
2 unique to just --

3 A. No. I have some reasons for it. A lot
4 has to do with housing stock. A lot of it has to do
5 with the fact that they rent. And when they rent,
6 the -- a lot of times the person or property owner
7 may not have encouragement to put in insulation or
8 to weatherize the home, because the renter pays the
9 electric bill.

10 So I think it has a lot to do with that
11 structure with rental property. But typically, I
12 think it gets back to the housing stock with a lot
13 of low income customers isn't -- isn't comparable to
14 other customers.

15 Another example would be a high efficiency
16 furnace. And I see the same thing in gas usage as
17 well across the country.

18 Q. Transitioning just slightly. If we were
19 to separate residential customers into three general
20 groups, one group consuming less energy than
21 average, one group consuming an average level of
22 energy and one group consuming more than the average
23 level of energy.

24 A. Uh-huh.

25 Q. Using the residential rate sets forth in

1 settlement agreement, will each of those residential
2 groups pay their full cost of service, or will any
3 of those residential groups be subsidized by the
4 other residential costs?

5 A. Under the current redesign?

6 Q. Under the --

7 A. Under the settlement agreement?

8 Q. Yes.

9 A. Yeah. Based on the results of our cost of
10 service study, again, there were other prospectives
11 on cost of service, case in point, hours.

12 Certainly, the higher usage customers would be
13 subsidizing the low usage customers under our cost
14 of service study because the cost of service study
15 indicates that the cost should be 22-dollars.

16 Q. So, I mean, does that go back to your
17 earlier statements where you state that's because
18 of -- well, can you explain a little bit more just
19 other than that's because that's what the cost of
20 your survey says that the basic service cost should
21 be?

22 A. Well, let me restate differently. That's
23 what the cost from our prospective is. So take --
24 set aside the cost of service study, for example.
25 The cost of -- the fixed cost related to serving the

1 customer, and I am going to interject according to
2 our cost of service study again, but the fixed cost
3 is 22-dollars. So when you charge something less
4 than that, obviously, you have to pick it up in the
5 energy charge.

6 So, but again, let me get back to the
7 stipulation. We feel that we made significant
8 movements in the customer charge because of the
9 increase in the customer charge is higher in this
10 two-step process than the energy charge. So it is a
11 move in the right direction from my prospective and
12 I think the company's prospective.

13 Q. Well, when you say it's moving in the
14 right direction, is it a -- the degree of the
15 movement, is it to your satisfaction.

16 A. Yes. Because I support the settlement, so
17 it's to my satisfaction?

18 Q. Okay. So at current rates, the fixed
19 monthly customer charge represents a higher
20 percentage of a low usage customer's bill than would
21 be the case than the high usage customer. Would you
22 agree with that?

23 A. Yes.

24 Q. Okay. And at the stipulated rates, that
25 would also be the case. Would you agree with that?

1 A. Yes.

2 Q. Does the fact that low usage customers pay
3 a higher percentage of their bills through the fixed
4 monthly charge, mean that the lowest usage customers
5 are subsidizing high usage customers?

6 A. No.

7 Q. Why?

8 A. Because the cost is higher than the
9 customer cost that we -- that's included in the fix
10 monthly cost.

11 Q. That goes back to what you said before in
12 terms of the companies aren't fully recovering their
13 customer related fixed cost through the basic
14 service charge, so, therefore, there are some
15 customer related fixed costs that are being covered
16 through the volume metric charge?

17 A. That's correct.

18 Q. So, therefore, if you have a higher
19 average user, you are going to be paying more than
20 as compared to lower customers who consume less than
21 the average?

22 A. That's correct.

23 Q. Okay. Does the shift in the rate design
24 for more fixed costs recovered through the energy
25 charge to more fixed costs being recovered through

1 the basic service charge cause rates to be more
2 aligned with cost of service?

3 A. What we agreed to in the stipulation, we
4 put more of the increase of the customer cost, so
5 certainly it causes the rates to be more aligned
6 with cost of service.

7 Q. Okay. Can you refer now to stipulation
8 Exhibit Number 4, Page 21 of 21?

9 A. Which Exhibit?

10 Q. Exhibit 4. Page 21 of 21.

11 If you look at the rate paid through 12
12 public schools, Time of Day Secondary. In the
13 middle column where it says present, TODS, there's
14 an energy charge of .03572?

15 A. Right.

16 Q. Should that be .03527? I ask you that,
17 because if you refer to the Page 8 of that Exhibit,
18 and if you look at the Time of Day Secondary
19 services at the rate TODS in all energy?

20 A. Yes.

21 Q. Across --

22 A. Yes.

23 Q. -- where it says present rates unit
24 charges, it says .32 -- I'm sorry, .527.

25 A. That's correct.

1 Q. Okay.

2 A. I -- I agree with you and it probably it
3 truly 3527 in the calculation. I would have to
4 verify that. But it was probably a formatting error
5 that truncated the last digit. So -- but I would
6 have to verify if the calculation is correct.

7 Q. Okay.

8 A. So it should be linked.

9 Q. Okay. So if it is -- if the correct
10 energy rates should be .03527, could you -- well,
11 would that change the amount of stipulated decrease?

12 A. It may or may not. I would have to verify
13 that.

14 Q. Okay. And if it does, could you revise --
15 well, as opposed to a data request, could you
16 confirm which rate that is?

17 A. Yes.

18 Q. Which energy rate that is.

19 Secondly, if there is going to be any
20 change in the amount of the stipulated decrease --

21 A. Okay.

22 Q. -- if there is a change, could you file a
23 revision to Page 20, Exhibit 4, to Page 21 of 21?

24 A. We will.

25 Q. And could you also look into if the .03527

1 rate is correct, whether that changes the rates for
2 either one or both of the proposed pilot school
3 tariffs?

4 A. We will.

5 Q. Switching lanes a little bit. Can a
6 customer is currently paying for a light that is
7 included in the restricted lighting class switch to
8 a nonrestricted light, under the lighting class?

9 A. Yes.

10 Q. Okay. When that occurs, is the company
11 able to retrofit the lights or would the entire pole
12 structure be change?

13 A. Yes. It's my understanding that they
14 could. They could put in a new type of lighting if
15 the customer wants a new type?

16 Q. Okay. Without changing the entire --

17 A. It depends on the light they selected.

18 Some fixture or poles are not compatible with
19 others. For example, a COBRA head might be
20 different than some type of pedestal light. So it
21 would depend on the light.

22 Q. Okay.

23 A. And if -- in some cases they would be able
24 to switch without a change in the pole and other
25 cases they would have to change out the type of pole

1 if they're on a pedestal type of light.

2 Q. Okay. So in that instance, who would be
3 responsible for the cost of switching?

4 A. Well, the cost of switching, obviously the
5 company would be for the cost of the switching. The
6 cost of paying the rate, it would be the customer.

7 Q. If you can refer now KU's Response to
8 Staff's Second Data Request, Items 7, 8, and 9. And
9 there were similar requests that were made in the
10 LG&E case, and those are 8, 9 and 10. But for
11 purposes of this question I will stick to the KU
12 case. These responses provide the supporting
13 calculations for tariffs EDSB, EDS-R and EDC. Could
14 you provide revised spreadsheets with the
15 stipulation?

16 A. We will.

17 Q. Okay. And could you provide those in both
18 paper copy and in Excel format?

19 A. We will.

20 Q. For both cases?

21 A. We will. I understand.

22 Q. Can you now refer to KU's Response to
23 Staff's Second Request, Item 76, and also Staff's
24 Third Request Number 20. Both of these touch on the
25 solar share program rider. So, same questions were

1 asked from Staff in the LG&E case as well.

2 A. Okay.

3 Q. Tariffs filed with the stipulation shows
4 no changes to the rates in the shared program rider;
5 is that correct? Are you aware of that?

6 A. I thought there were some changes, but I
7 thought the -- some of these were linked to the
8 energy charges, for example, power service
9 secondary, power service primary. I think those are
10 linked to the energy charges and the rates. So I
11 don't know if they were updated or not, but that was
12 the intention.

13 Q. The companies filed changes that would be
14 made to both the solar energy credit and the solar
15 capacity charge. If these are the ROE agreed to in
16 the stipulation and under -- each of the corrected
17 cost of service studies filed in each of these
18 cases?

19 A. Could you repeat the last part? I
20 understood the solar chair fixed charge. What was
21 the last part?

22 Q. Okay. Using the ROE, the stipulated to
23 ROE, and under each of the corrected costs of
24 service studies.

25 A. Okay. I think I understand that. Let me

1 restate it to make sure that we're -- the solar
2 share program included a fixed charge component
3 which would be different depending on the ROE. You
4 want us to modify that or adjust that to reflect the
5 ROE. And the cost of service study, the only thing
6 that might impact that would be the energy
7 component. You want us to update that according to
8 the cost of service study?

9 Q. Correct.

10 A. Okay.

11 Q. And like the other Data Request, provide
12 paper copy and also an Excel spreadsheet?

13 A. We can.

14 Q. Thank you. Just give me one second,
15 Mr. Seeyle.

16 Those are all the questions that I have.

17 MR. SCHMITT: Mr. Cicero, do you have any
18 questions?

19 **EXAMINATION**

20 **BY MR. CICERO:**

21 Q. The original proposal by KU and LG&E was
22 to increase the base service charge basically from
23 \$10.25 up to \$22 and from \$13.75 up to \$24; is that
24 right?

25 A. That's correct.

1 Q. Would you say, in your expert opinion,
2 that the gas service customers were already covering
3 more of their fixed cost charge through their rate
4 recoup to them, the basic service charge than the
5 electric customers were, based on the fact that it's
6 already at \$13, or was there an inherent greater
7 infrastructure cost on the gas rather than the
8 electric?

9 A. There's two questions there and I am going
10 to answer the last one first.

11 There is greater infrastructure cost for
12 the gas than there is for the electric, so you are
13 correct on that.

14 They were paying more, but it's primarily
15 as a result of the gas line tracker. The gas line
16 tracker is still on a per customer basis.
17 Therefore, after you take that into consideration,
18 they were paying approximately \$19 plus, by the
19 operation of the tracker. So -- so, yes, they were
20 paying more, but it was -- it wasn't just because of
21 the current \$13.50 charge, it's also because of the
22 gas line tracker and how it operates.

23 Q. In the stipulation, I think it's a \$3
24 increase for natural gas customers and then \$2.75
25 increments for the electric. Was there more

1 pressure to keep the electric base rate lower than
2 the gas increase? In other words, was there -- it
3 appears that the increase of the gas customers is a
4 greater proportion than it is for on the electric
5 customers. I am wondering if this reflects a
6 growing trend in the industry in general that you
7 keep rates down, utilities try to push electric
8 rates up, Intervenors trying to keep the basic
9 service charge down. Is that a reflection of
10 decreased consumption in areas like in Kentucky
11 where there is not much volume to cover the overall
12 revenue requirement and so there is a push upward on
13 those rates? Is that a fair statement? You're the
14 expert. I'll just ask that.

15 A. Okay. Upper pressure on gas or electric?

16 Q. Electric.

17 A. On the rate or the cost?

18 Q. Basic service charge.

19 A. The basic service charge.

20 I think -- my prospective on it, it seems
21 like the electric gets a lot more attention from the
22 public than the gas, and there are a lot more
23 electric customers than there are gas customers.
24 Therefore, I think there was more concern on the
25 electricity side of the business than there was on

1 the gas side of the business.

2 In general, I don't think there is much
3 difference in the desire of the utilities to reflect
4 cost. I think both, there is a general trend across
5 the United States to try to reflect the cost through
6 the customer charge. So I don't think it differs
7 between gas and electric.

8 Traditionally on the gas, there was an
9 industry trend to try to reflect that because the
10 gas volumes were decreasing steadily over a large
11 number of years. In the case of LG&E the gas
12 consumption went from like 150 NCF a year down to
13 about 70 NCF a year. Therefore, if they didn't have
14 a customer charge that reflects the cost, then there
15 were some pressure on rates, but also some serious
16 inner class subsidies that used more than were
17 subsidizing other customers. So I think there was a
18 pressure a number of years ago to get the gas
19 customer charges up.

20 But I think there is a trend now in the
21 United States, because a lot of the clients that I
22 work with have \$20 to \$40 customer charges. So --
23 that's on their electric side. And some gas
24 utilities have some very similar customers. So, I
25 don't think that there's a difference in cost

1 recovery from the two utilities, but there are some
2 historical changes that push it on the gas rather
3 than it did on the electric. I don't know if that
4 answers your question.

5 Q. Well, no, but it was great lead in because
6 it goes over to the electric side. On the gas side,
7 the average consumption was, I think you said 147 or
8 153, somewhere thereabouts and it he declined
9 dramatically down to 78 or --

10 A. Something in that neighborhood.

11 Q. Almost half.

12 Is the decrease in overall volume for
13 utilities in general in Kentucky forcing pressure on
14 the customer base charge because volume of
15 electricity delivered is declining?

16 A. No.

17 Q. Okay.

18 A. I have not seen in Kentucky the volume per
19 customer declining. The kilowatt hours per customer
20 on the electric I have seen it in other
21 jurisdictions. I have seen it dramatically in other
22 jurisdictions.

23 I have for a utility in New Mexico, within
24 the last year, that saw their average consumption go
25 from 800-kilowatt hours to 350 or so kilowatt hours

1 per month. Therefore, it had a dramatic impact with
2 the utilities financially because of that loss. But
3 that's in a different part of the country.

4 Q. So in this case, in particular, in looking
5 at the base service charge, when we look at a
6 utility attempting to increase, in this case, it was
7 \$10.75 up to \$22 and you had indicated to Staff that
8 that's what the cost of service study basically
9 indicated it should be. I understand that there was
10 no increase last time when there was a rate request.
11 But has the trend towards that \$22, should it be
12 increasing gradually, faster, or is it -- I mean,
13 why the big push now for the -- we are seeing a lot
14 of it in the rate cases where attempts are being
15 made on the basic customer service charge. Why the
16 emphasis on that now?

17 A. I've seen the emphasis the last 20 years,
18 so I'm not seeing a difference. I've worked with
19 utilities that were doing it 20 years ago when I
20 started work as a consultant. And I don't think
21 it's a recent phenomenon. It may be in Kentucky to
22 some extent, but it has not been my experience
23 nationwide that there is a sudden impetus to
24 increase the customer public charge.

25 I mean, one -- the public comment was made

1 earlier that the company hasn't proposed higher
2 charges in the past, like \$18 to 20-dollars. So I
3 don't think it's a recent phenomenon. It also
4 depends on the consultants they use to cost of
5 service study experts, their -- their approach to
6 cost of service.

7 MR. CICERO: Thank you. You answered some
8 questions for me.

9 THE WITNESS: You're welcome.

10 MR. SCHMITT: Mr. Logsdon?

11 MR. LOGSDON: No questions.

12 MR. SCHMITT: I have no questions.

13 Counsel, any follow-up?

14 APPLICANT STAFF: No, Your Honor.

15 MR. SCHMITT: Staff?

16 COMMISSION STAFF: No, Your Honor.

17 MR. SCHMITT: Counsel for any of the
18 intervenors?

19 **CROSS-EXAMINATION**

20 **BY INTERVENOR STAFF:**

21 Q. You were asked a couple questions earlier
22 about the implementation of the increase of the
23 customer charge for the electric over two years, .75
24 cent increase in 2017 and a .75 cent increase in
25 '18; is that correct?

1 A. That's correct.

2 Q. And I think you were asked about
3 putting -- I forget the words, but you were asked
4 to, kind of asked to, give the pros and cons of
5 that. Do you know of any principles in utility rate
6 making that that would support implementing a rate
7 increase over a number of years?

8 A. In terms of the overall increase,
9 certainly the principles that were written about in
10 the 1950s in Bonbright's Book of Gradualism and Rate
11 Continuity would certainly address the overall
12 impacted rates. An argument could be made in
13 prospective provided that I've heard many times on
14 the level of customer charge with respect to rate
15 continuity. I think that's a different concept
16 maybe than gradualism, because gradualism typically
17 is addressed in terms of the overall bill. But rate
18 continuity would tend to apply for a rate component.
19 That's how I look at it any way.

20 Q. And can we go back to, I believe. Conroy's
21 rebuttal testimony on Page 14. There was a chart
22 that I believe that the company and Mr. Conroy had
23 created using data supplied by the Community Action
24 Council in the KU case. So if you can, can you give
25 me just between those four months, a range of what

1 it states, I guess, the average of those four
2 months, the number of KU residents or customers?

3 A. It will take me a second because this is
4 not my exhibit, but --

5 Q. Oh, that's fine. Just roughly.

6 A. It says here 8 -- on KU residential
7 customers, it goes from 812 to 1571.

8 Q. Excuse me. Sorry. On the number of
9 customers.

10 A. KU residential customer, okay.

11 Q. On the far left.

12 A. Okay. You are talking about KU's
13 residential customers total.

14 Q. Yes.

15 A. Okay. 429297 is the lowest and 431515 is
16 the highest.

17 Q. And again, what is the range of the number
18 of data points that CAC presented?

19 A. It appears 317 is the low and 1452 was the
20 high.

21 Q. And so would you agree that -- would you
22 say that that is statistically significant number in
23 creating the overall arching conclusion that low
24 income users, in this -- given this evidence, either
25 they are higher or lower users is, let's just say,

1 1,452 data points out of 431,000 numbers. Is that
2 statistically significant?

3 A. Yes.

4 Q. And how close?

5 A. How close to being statistically
6 significant?

7 Q. Yes.

8 A. I don't understand the question.

9 Q. Well, I mean, so -- I guess, generally,
10 would you be able to extrapolate that and use that
11 as a data point to back up the point that Mr. Conroy
12 made in his testimony?

13 A. Yes.

14 Q. That all end user are either high or low
15 energy users?

16 A. Yes.

17 Q. Okay.

18 A. If I can elaborate rate.

19 Q. No, that's fine.

20 A. The reason I gave the answer I did is for
21 a number of years I've -- for my entire career, I've
22 worked with statistical sampling of globe research
23 and this level of sample because -- first of all,
24 this is applies to just low income, not the entire
25 data set of residential customers. It's only low

1 income customers. But a typically statistically
2 valid sample based upon purpose standards that were
3 established years ago, these far exceed what is
4 typically included in the statistically valid
5 sample.

6 So 317 is -- a statistically valid sample
7 of residential customers is typically in the 100 to
8 150 range. This is far beyond that and this is for
9 a subset. So I would say it's definitely
10 statistically valid, assuming it's random. You
11 know, I don't know the results of, you know, how the
12 data was gathered. But I would say it's
13 statistically significant, statistically valid.

14 Q. I know this is not your primary job, I
15 guess, I'll preface it with that. But is it your
16 understanding that at least a large amount of the
17 numbers or a good amount of the numbers of the low
18 income data points that the CAC supplied would
19 receive some sort of federal or local assistance in
20 paying their utility bills?

21 A. Yeah, probably almost all of them would.

22 Q. And is it possible that that -- let's call
23 it that subsidy for lack of a better term, that that
24 assistance may be a reason for higher usage compared
25 to other users?

1 A. I don't know. I've heard speculation on
2 that. I've never seen studies to indicate that. I
3 personally believe it has more to do with the
4 housing stock.

5 Q. But would you consider that to be
6 behavioral?

7 A. I mean, it may or may not be the case
8 behavioral characteristics of getting subsidies. I
9 mean, I cannot comment on it, because I have not
10 done any kind of study on customers behavior that
11 receives that.

12 Q. Is there -- so your understanding, is
13 there any testimony in the record indicating that
14 should the companies as filed position regarding the
15 customer charge be accepted, that -- and other
16 testimony other than yours, that it's possible that
17 lower users may have subsidized higher users, larger
18 volumetrically that lower users may subsidize higher
19 users. Is there any testimony in the record to that
20 effect?

21 A. On the stipulated rates?

22 Q. As the as-filed rates for the company?

23 A. Yes. In my testimony I addressed it.

24 Q. Is there any -- excuse me. And I think
25 you were asked a question earlier about the gas line

1 tracker and that you note that currently the gas
2 line tracker recoverers cost on a per customer
3 basis, a fixed charge?

4 A. That's correct.

5 Q. And isn't it correct that as part of the
6 stipulation, part of the gas line tracker when it
7 was rolled into base rates, part of it is reflected
8 and recovered as a fixed charge effectively through
9 the customer charge and part of it will be
10 recoverable in metricate.

11 A. In the stipulated rates?

12 Q. In the stipulated rates.

13 A. Yes.

14 MR. CHANDLER: Thank you.

15 MR. SCHMITT: Staff, any questions?

16 Yes, ma'am. I'm sorry.

17 MS. ROBERTS: That's quite alright.

18 **FURTHER CROSS-EXAMINATION**

19 **BY INTERVENOR STAFF:**

20 Q. Following up on questions that
21 Mr. Chandler was asking about the exhibit that's not
22 yours. I do appreciate your willingness to answer a
23 few questions about it.

24 Do you have that page up, which you do.

25 Would you agree that the data in this exhibit covers

1 four months of the year?

2 A. That's correct.

3 Q. Okay. So, is it possible to draw a
4 conclusion about annual kilowatt usage of low income
5 customers and general customers from this table?

6 A. Understanding where most of the
7 consumption of customers fall for KU customers, yes.

8 Q. Let me restate my question again, sir.
9 From this table alone, can you derive any
10 information about what the usage of these two
11 customer groups are in the summer months?

12 A. No.

13 Q. Okay. And summer consumption, energy
14 consumption, would be likely driven by the
15 air-conditioning usage in a state like Kentucky,
16 correct?

17 A. That's correct.

18 Q. Okay. Thank you.

19 The Community Action Council, the
20 organization that helps provide bill payments and
21 other resources to customers; is that your
22 understanding?

23 A. That's my understanding.

24 Q. Okay. Thank you.

25 And you spoke earlier about whether or not

1 this was a random sampling of low income customers.

2 Would you agree that it's possible that customers
3 who seek out bill payment assistance are customers
4 that have higher energy bills?

5 A. I don't know.

6 Q. Okay.

7 A. I have no basis to draw that conclusion.

8 Q. Okay. So the customers that are listed
9 here under KU low income customers based CAC
10 supplied data, that's not all KU customers?

11 A. No.

12 Q. It's a subset of those customers?

13 A. If this is accurate CAC supplied data, I
14 would say it's not all low income.

15 Q. Okay. So it's subset of low income
16 customers that have sought out bill payment
17 assistance?

18 A. Right.

19 Q. Okay. Thank you.

20 I would like to go back to something you
21 said early on in your testimony today regarding the
22 testimony of Intervenor witnesses, Watkins and
23 Wallock. And just a clarifying question. I believe
24 you stated that those witnesses said that the only
25 cost that should be included in the customer charge

1 were metering and services line costs. Is that what
2 you stated?

3 A. In their calculations, they only included
4 in the customer-related cost the meter-related costs
5 that included meter reading and billing obviously.

6 Q. Okay.

7 A. As well as service line. They did not
8 include transformer cost, they do not include
9 secondary lines, extensions to make, hook-up a
10 customer in primary lines.

11 Q. Okay. Thank you very much for that
12 explanation.

13 I just wanted to clarify, you've added now
14 billing when you explained that?

15 A. I meant that along with meter-related
16 costs --

17 Q. Okay.

18 A. -- would be reading the meters and
19 rendering the bill. So that would be included.

20 Q. Okay. What about customer service-related
21 to costs? Do you recall whether those are included?

22 A. I don't recall exactly --

23 Q. Okay --

24 A. -- exactly what they did.

25 Q. Okay. Do you happen to have a copy of the

1 Intervenor's testimony?

2 A. I do not.

3 Q. Okay. Thank you.

4 Let's look at Mr. Wallock's testimony in
5 either case. If you could please go to Page 9.

6 Mr. Seeyle, could you please read, starting here on
7 Page 9 on this testimony from Lines 10, I believe.

8 I may be looking at a different version, where he
9 says, "I derived the minimum cost to connect."

10 A. Yeah.

11 Q. Could you please read that sentence?

12 A. I derived the minimum cost to connect a
13 residential customer based on the cost per
14 residential customer of service drops, meters, meter
15 reading, billing and other customer service
16 expenses.

17 Q. Okay. Thank you very much.

18 You said that you worked for a number of
19 utilities, correct?

20 A. Yes.

21 Q. And you're based in Kentucky, so have you
22 worked for other Kentucky investor-owned utilities
23 on these sorts of rate cost of service matters?

24 A. Other Kentucky investor-owned utilities,
25 no.

1 Q. Okay. Do you happen to know what the
2 customer charge is for the Kentucky Power Company is
3 for residential customers?

4 A. No, I do not.

5 Q. How about Duke Energy Company?

6 A. No, I do not.

7 MS. ROBERTS: Okay. Mr. Chairman, I would
8 like to introduce an exhibit that's two
9 separate documents.

10 MR. SCHMITT: Can you tell us what it is?

11 MS. ROBERTS: Yes, absolutely. The first
12 one is going to be the current residential
13 tariff for Kentucky Power Company and the
14 second is the current tariff for the Duke
15 Energy Company.

16 MR. SCHMITT: Do you have copies?

17 MS. ROBERTS: We do. We are ready to
18 circulate those.

19 MR. SCHMITT: Let's mark the Duke Energy
20 as Sierra Club Exhibit 1 and Kentucky Power
21 Exhibit as Sierra Exhibit Number 2.

22 MS. ROBERTS: Thank you, Your Honor.

23 COMMISSION STAFF: If I can ask, on the
24 Duke Energy Kentucky Tariff, there should be a
25 file stamp, a Commission file stamp on the

1 tariff, but I don't see it. It's similar to
2 Kentucky Power. I don't know if the copy
3 doesn't show up or --

4 MS. ROBERTS: Yeah. Thank you for the
5 question Mr. Ngyuen. I am not sure why this
6 version does not have the stamp on it as you
7 referred to, but I was just conferring with
8 counsel for the companies and they
9 double-checked this version against the one
10 that is stamped and is available on the
11 website.

12 COMMISSION STAFF: The rates appear to be
13 identical to what's available on the
14 Commission's website and with the stamp on it,
15 so we are prepared to let it go for these
16 purposes.

17 MS. ROBERTS: Thank you very much.

18 MR. SCHMITT: Well, what we'll do is, we
19 won't finish today anyway. So overnight we can
20 check and see.

21 You may ask.

22 MS. ROBERTS: Thank you very much.

23 BY INTERVENOR STAFF:

24 Q. Mr. Seeyle, have you had an opportunity to
25 review these two documents?

1 A. Yes.

2 Q. And so the Exhibit marked SC1 is the
3 schedule of rates, classifications rules and
4 regulations for electric service of Duke Energy
5 Kentucky, correct?

6 A. I see that, yes.

7 Q. And do you accept based upon the
8 discussions that we just had here, that there are
9 accurate copies of current tariff?

10 A. Subject to verification, yes.

11 Q. Thank you very much.

12 Will you please turn to the second page of
13 the Duke Energy Kentucky exhibit, and will you let
14 us know what that customer charge is for Duke Energy
15 Kentucky?

16 A. The customer charge says \$4.50.

17 Q. Okay. Thank you.

18 If we could please refer to the document
19 marked Sierra Club Exhibit 2, which is the
20 residential tariff sheet for Kentucky Power Company,
21 correct?

22 A. That's correct.

23 Q. And turning to Page 2 of that exhibit,
24 will you please let us know what Kentucky Power
25 Company's current service charge is?

1 A. It states \$11 per month.

2 Q. Okay. Thank you very much, Mr. Seeyle.

3 Mr. Chairman, I would like to move Exhibit
4 1 and 2 into evidence.

5 MR. SCHMITT: They will both be admitted
6 subject to confirming the authenticity of the
7 Dukes exhibit, Sierra Club 1, which we will
8 have done in the morning.

9 INTERVENOR STAFF: Thank you very much.

10 I have no further questions.

11 MR. SCHMITT: Any other questions from
12 Staff?

13 COMMISSION STAFF: No, Your Honor.

14 MR. SCHMITT: Counsel for any of the
15 Intervenors?

16 INTERVENOR STAFF: Yes, Your Honor.

17 **FURTHER CROSS-EXAMINATION**

18 **BY INTERVENOR STAFF:**

19 Q. Tom FitzGerald representing Metro Housing
20 Coalition. As between the as-filed customer charge
21 and the increase to \$22 for LG&E; is that right?

22 A. Yes.

23 Q. And there was a corresponding reduction
24 volumetric charge?

25 A. That's correct.

1 Q. Assuming that I were an energy efficient
2 user who had invested under the previous rate
3 structure for LG&E, would raising my customer charge
4 to \$22 and lowering volume metric have -- allow me
5 to recover my investment in energy efficiency in
6 windows and doors quicker or would it have delayed
7 recovery?

8 A. With everything else be equal.

9 Q. Yes.

10 A. If you had, based on our final position;
11 is that correct?

12 Q. Yes.

13 A. Obviously, the energy charge would be
14 lower, therefore, the savings per kilowatt hour
15 would be lower.

16 Q. Okay. So it would take longer for me to
17 recover the investment that I made on the assumption
18 of what the rates were when I made that investment?

19 A. Yes.

20 Q. To your knowledge, do customers look at
21 those sorts of things when they're considering
22 whether to make energy efficient investments for the
23 time period for the return on the investment might
24 be?

25 A. Not necessarily.

1 Q. Is that for residential or --

2 A. For primarily residential I would say not
3 necessarily. Because in other jurisdictions that
4 I've worked in who have a much larger penetration of
5 solar panels than in Kentucky, a lot of it is what I
6 would call cultural motivation to conserve. They do
7 it irrespective of the charges.

8 The area -- the one that I'm thinking of
9 in Toust area, they have a culture of, you know,
10 trying to conserve. So, no, I would not agree that
11 they would necessarily look at their consumption.

12 Q. Is it a factor outside of Toust, what they
13 are going to sink in terms of investment and what
14 they are going to get?

15 A. In the west, I would say it's probably
16 not.

17 Q. Okay?

18 A. In this area it may be. You know, I
19 haven't studied individual customer views on that.

20 Q. Okay. Switching to a low income renter.
21 You mentioned that a number of customers with low
22 fixed income customers are renter and that is
23 certainly the demographics in Metro Louisville. If
24 I double the charge over what it had been, does that
25 leave me more or less opportunity to control my cost

1 by putting in window coverings or working with some
2 of the providers to better insulate the housing
3 envelope?

4 A. It's a complicated question because it
5 depends on their available funds to do that type of
6 thing.

7 Q. Assuming --

8 A. So they may -- I think that's the issue.
9 A lot of low income people, they can't afford to do
10 it.

11 Q. Right. But let's assume that there is
12 assistance available. Does doubling the customer
13 charge provide them more or less opportunity to
14 control their monthly cost?

15 A. It probably does if they are looking at
16 that, and I'm not sure they are. But it probably
17 does provide less of an opportunity because of the
18 savings realized through the customer charge would
19 be less.

20 Q. Okay. And finally, did you see the filing
21 that Metro Housing did in response -- in the initial
22 filing from Cathy Hinko, who is the Director of
23 Metro Housing Coalition showing some of the feedback
24 that they've gotten from the ASAP Program in terms
25 of what a little bit of assistance means in terms of

1 real world things like being able to buy clothes for
2 their kids for school and some of those other
3 essentials that we take for granted?

4 A. I did not read that testimony, because I
5 had a lot to deal with.

6 Q. Oh, I know you do.

7 Mr. Chairman, thank you.

8 MR. SCHMITT: Any other questions from
9 counsel for the Intervenors?

10 If not, Mr. Ngyuen, questions?

11 COMMISSION STAFF: Just a couple of
12 questions, Your Honor.

13 **RECROSS-EXAMINATION**

14 **BY COMMISSION STAFF:**

15 Q. In terms of a cost and service study
16 that's developed by an IOU or rural electric
17 cooperative, is there any difference on how those
18 are developed, when one utility is an IOU and the
19 other electrical utility was a RACC?

20 A. Yes.

21 Q. There's a difference?

22 A. There is a difference primarily in
23 production of cost versus purchase power cost.

24 Electric cooperatives purchase power from the GNT
25 and whereas, most IOUs rely on their own generation

1 resources. So with respect to the protection
2 facilities, there is a big difference. With respect
3 to distribution, there is very little difference.

4 Q. So in terms of developing the customer
5 charge or the basic service charge, are there -- is
6 there any difference between the cost of service
7 side that's developed by the IOU utility versus a
8 distribution?

9 A. In terms of methodology, no, there is no
10 difference.

11 Q. For the Sierra Club Exhibit 1, the
12 Kentucky residential service where the customer
13 charge shows \$4.50 per month, do you have any idea
14 as to when that charge was initially effective?

15 A. I would suspect many years ago, but I
16 don't know precisely.

17 Q. And do you know what the cost of service
18 was for Duke Kentucky in arriving at that \$4.50?

19 A. No. I have not looked at it. I've looked
20 at their methodology in the past. They use the same
21 approach that we do. So, they, in terms of the zero
22 intercept, I do know that. They've used it for many
23 years, but I haven't looked at this result in their
24 customer cost.

25 Q. Would you know if that customer charge was

1 as a result of a settlement for a fully litigated
2 case?

3 A. I don't know.

4 Q. For Sierra Club Exhibit 2, same question
5 with respect to the service charge of \$11 per month.
6 Do you know exactly when that charge became
7 effective?

8 A. No, I do not.

9 Q. Do you know if that charge was as a result
10 of a settlement or a fully litigated matter?

11 A. It's my understanding their current rates
12 were as a result of a settlement. So, if these are
13 their current rates, and it appears they are, I
14 think that they are, I think they are the result of
15 a settlement.

16 COMMISSION STAFF: Those are all the my
17 questions.

18 MR. SCHMITT: I have no questions.

19 Commissioner Cicero?

20 MR. CICERO: No.

21 MR. SCHMITT: Counsel, anything further?

22 APPLICANT STAFF: No, sir.

23 MR. SCHMITT: Anyone else? Any questions
24 for the Intervenors?

25 I have someone sneaking up from the rear.

1 Counsel, any further questions.

2 MS. ROBERTS: No.

3 MR. SCHMITT: Anything you want to share
4 with us?

5 MS. ROBERTS: No, I apologize for the
6 distraction, Mr. Chairman.

7 MR. SCHMITT: No, no, no.

8 Mr. Chandler, go ahead.

9 **RECROSS-EXAMINATION**

10 **BY INTERVENOR STAFF:**

11 Q. So you mentioned that the methodology, you
12 believed the methodology for coming to number on the
13 customer charge for an RCC and for a vertically
14 integrated utilities is essentially the same, the
15 methodology.

16 A. The methodologies would be the same, yes.

17 Q. Okay. And -- and just to make this for my
18 own education as well, it's my understanding -- no,
19 I am not going to ask that.

20 Do you take into account certain
21 administrative general expenses when coming to a
22 conclusion on your customer charge of methodology
23 used?

24 A. It -- the cost of service study that we
25 prepare is called a fully allocated cost of service

1 study. Therefore A&G expenses are fully allocated
2 to the various functional components in -- of the
3 utilities cost. So, yes, it's taken into
4 consideration and it's fully allocated.

5 Q. So that customer charge would represent
6 certain, as a general term, certain overhead that
7 are fixed costs, correct, personnel and
8 administration?

9 A. To the extent that it's the ONM cost that
10 are included in there and that would be fully
11 allocated. Capital costs are treated differently,
12 which is the larger portion of the costs.

13 Q. And would you agree that there is a
14 difference in ONM between a GAT and a RACC due to
15 the fact that one controls and operates both
16 generation and transmission and the other is
17 distribution only. All things equal, there would be
18 additional costs for general and ONM for overhead?

19 A. For an IOU, you mean?

20 Q. Yeah. The difference between a vertically
21 incurred utility and RACC there would be additional
22 back office staff, additional ONM, additional staff
23 necessary to run those different functions.

24 A. In terms of ANG I am not sure. In terms
25 of obviously production function for a utility, it

1 would have a lot more ONM expenses for an IOU than
2 it would for a co-op. But in terms of the ANG I am
3 not sure, because there is others factors that
4 effect -- excuse me, an economy scale that might
5 come into play. IOUs are much longer. And
6 typically, not always. Some cooperatives are quite
7 large. But it's a complicated question that you're
8 asking.

9 Q. And just to confirm, those costs are
10 treated differently as opposed -- in your testimony
11 and in other Intervenor's testimony, correct?

12 A. Correct.

13 Q. Thank you.

14 MR. SCHMITT: Mr. Gardner?

15 MR. GARDNER: I just have one question.

16 **FURTHER RECROSS-EXAMINATION**

17 **BY INTERVENOR STAFF:**

18 Q. Mr. Seelye, you indicated that
19 the methodology for computing cost of service for an
20 IOU and a distribution co-op were the same
21 methodology. Is there a reason why it's difficult
22 to compare the actual cost of service for a
23 distribution co-op with an IOU utility that that's
24 not a fair comparison.

25 A. Yes. There are some differences in -- I

1 just eluded to a second ago was economy of scale.
2 Cooperatives are much smaller. They might have more
3 overhead relative to the cost. I think it goes the
4 other way than was suggested. They might not have
5 the purchasing power that an IOU would have.
6 Therefore, there are some other factors that would
7 make the comparison difficult in terms of the costs.

8 Q. And you would not go to a Commission, all
9 things being equal, and say that you can compare the
10 rates and the rates where the distribution co-op can
11 be compared apples to apple?

12 A. No directly. Directionally you could, no,
13 you can't compare because they have two different
14 cost structures.

15 Q. Okay. Thank you.

16 MR. SCHMITT: Anybody other questions?

17 Okay. In that case, you may step down.

18 May this witness be excused or do you
19 think he will be needed later on.

20 COMMISSION STAFF: I don't think he will
21 be needed.

22 MR. SCHMITT: It's a little after five
23 o'clock and we were going to recess at five or
24 5:30, so I think we ought to adjourn at this
25 time and reconvene at nine in the morning and

1 perhaps we can finish tomorrow.

2 Thank you.

3 (Thereupon the meeting adjourned at 5:05

4 p.m.)

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COMMONWEALTH OF KENTUCKY AT LARGE:

I do hereby certify that the witness in the foregoing transcript was taken on the date, and at the time and place set out on the Title page hereof by me after first being duly sworn to testify to the truth, the whole truth and nothing but the truth; and that the said matter was recorded stenographically and mechanically by me and then reduced to typewritten form under my direction and constitutes a true record of the transcript as taken, all to the best of my skill and ability.

I certify that I am not a relative or employee of either counsel, and that I am in no way interested financially, directly or indirectly, in this action.



DIANA HALL LOEB, COURT REPORTER
AND NOTARY PUBLIC
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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY)
UTILITIES COMPANY FOR AN ADJUSTMENT)
OF ITS ELECTRIC RATES AND FOR) Case No.
CERTIFICATES OF PUBLIC CONVENIENCE) 2016-00370
AND NECESSITY)

and

ELECTRONIC APPLICATION OF LOUISVILLE)
GAS AND ELECTRIC COMPANY FOR AN)
ADJUSTMENT OF ITS ELECTRIC AND GAS) Case No.
RATES AND FOR CERTIFICATES OF PUBLIC) 2016-00371
CONVENIENCE AND NECESSITY)

Public Hearing

May 10, 2017
9:15 a.m. - 11:58 a.m.
Day 2 of 2

Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky

Lisa Larson, FCRR, RPR
Federal Certified Realtime Reporter

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A P P E A R A N C E S

PUBLIC SERVICE COMMISSION COUNCIL MEMBERS:

Michael J. Schmitt, Chairman
Robert Cicero, Vice Chairman
Daniel E. Logsdon, Jr.

APPLICANT STAFF: As recorded on the record

COMMISSION STAFF: As recorded on the record

INTERVENORS: As recorded on the record

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REPORTER'S CERTIFICATE 128

1 MR. SCHMITT: We're back on the
2 record in the cases involving Kentucky
3 Utilities Company and Louisville Gas and
4 Electric Company for an adjustment of
5 Lexington gas rights and certificates for
6 public convenience and necessity.

7 Yesterday after the close of the
8 proceedings, at the request of counsel, we
9 excused Mr. Staffieri and Mr. Thompson.
10 Is that correct?

11 MR. RIGGS: That's correct.

12 MR. SCHMITT: Let the record
13 reflect that they have been excused and are
14 no longer under any obligation to attend.

15 I guess we're ready to proceed.
16 Mr. Riggs, would you call your next witness.

17 MR. RIGGS: Yes, Your Honor. We
18 call Mr. Lonnie Bellar, please.

19 **LONNIE E. BELLAR,**
20 the witness herein, having first been duly placed
21 under oath, was examined and testified as follows:

22 **DIRECT EXAMINATION**

23 **BY APPLICANT STAFF:**

24 Q Good morning, Mr. Bellar. Will you state your
25 full name for the record, please.

1 A Lonnie E. Bellar.

2 Q And would you also state your job title and your
3 business address.

4 A I'm the senior vice president of operations.
5 My business address is 220 West Main, Louisville,
6 Kentucky.

7 Q Mr. Bellar, did you cause to be filed in this
8 matter both direct and rebuttal testimony?

9 A Yes.

10 Q Were you also the responsible witness for a number
11 of data responses that have been submitted in this
12 matter?

13 A Yes.

14 Q If I were to ask you the same questions in those
15 two pieces of testimony and in those data
16 requests, would your answers be the same?

17 A Yes, they would.

18 APPLICANT STAFF: Mr. Bellar is
19 available for questioning.

20 MR. SCHMITT: Staff, any
21 cross-examination?

22 COMMISSION STAFF: Yes.

23 **CROSS-EXAMINATION**

24 **BY COMMISSION STAFF:**

25 Q Good morning, Mr. Bellar.

1 A Good morning.

2 Q In the stipulation agreement, it is section 4.5,
3 do you have that in front of you?

4 A Yes, ma'am.

5 Q And to give you a heads up, I'll refer to the
6 stipulation agreement and also to your direct
7 testimony in a moment.

8 A Okay. I have 4.5, yes.

9 Q Thank you. Section 4.5, it provides a five year
10 limit to the gas line tract recovery for both the
11 transmission modernization and the service line
12 replacement program; is that correct?

13 A Correct.

14 Q And the transmission pipeline modernization
15 program, is this correct, that the first phase of
16 this is a three year project?

17 A Correct.

18 Q And it will replace 15.5 miles of transmission
19 pipeline?

20 A Correct.

21 Q And the expected cost for that phase is
22 \$60 million?

23 A Correct.

24 Q And does the settlement agreement, section 4.5,
25 allow all of that 60 million in the transmission

1 pipeline modernization program cost to be
2 included?

3 A Correct, through 2022.

4 Q 2022, yes. And the service line replacement
5 program, this is a 15 year program overall;
6 correct?

7 A Correct.

8 Q And the first three years of it, as I understand
9 and I want to confirm, all of the county loops,
10 the steel post services will be removed and
11 approximately 12,000 of 45,000 steel service lines
12 replaced?

13 A Correct.

14 Q And the annual cost for the first three years is
15 10 to 11 million, or 30 to 33 million for those
16 first three years?

17 A Correct.

18 Q And the annual cost for the remaining 12 years is
19 4.5 million to 7 million per year?

20 A That's correct.

21 Q So during this five year period, for the gas line
22 tracker it would be roughly \$39 to \$50 million for
23 the steel replacement?

24 A Correct.

25 Q Does LG&E plan to spend specific amounts that were

1 set out in the application, again that 39 to 55
2 million?

3 A Yes. The way we're approaching the program is
4 consistent with the budgeted values of the
5 forecasted values we provided in the case,
6 correct.

7 Q Can you confirm that there will be no acceleration
8 of the service line replacement so that more would
9 be included in that five year period?

10 A We don't have any plans to do that. And,
11 obviously, if we chose or thought that that was
12 the right approach in the five year window, we
13 wouldn't do that without seeking prior approval of
14 the Commission.

15 Q Thank you. And, also, in your direct testimony,
16 you don't need to pull it out right now, you
17 described the construction of the new gas pipeline
18 in Bullitt County --

19 A Yes.

20 Q -- is that correct?

21 A Correct.

22 Q And that project was explored further in the
23 discovery responses filed by LG&E and KU; correct?

24 A Correct.

25 Q And, again, I'll make sure I clarify the project,

1 this pipeline is approximately a 10 to 12 mile
2 long pipeline, a 12 inch pipeline, and is
3 projected to cost 26.6 million --

4 A That is --

5 Q -- is that correct?

6 A -- correct.

7 Q Can you generally describe the need for this
8 pipeline?

9 A Sure. So as we do on our gas system every year
10 and sometimes more frequently than on an annual
11 basis, we look at where we have limited supply and
12 there may be a need to increase that supply. We
13 also look at where we may be challenged on
14 reliability, where there is an exposure that has
15 developed over time that is unacceptable. And
16 this pipeline segment that we're adding will
17 augment a system that's, basically, on a radio
18 line, meaning a one-way feed. And there is close
19 to 10,000 customers that are served on that
20 one-way feed. And -- and, additionally, that
21 one-way feed is limited in its current capacity,
22 ability to add new customers on that system is
23 very limited, and that was part of the discovery
24 that you mentioned.

25 So with those two facts in hand, we devised a

1 project, which is the one that's being proposed,
2 is to augment supply to that system, which would
3 do two things. That would allow a secondary feed
4 to eliminate some of the risks that exist today of
5 a radio feed for that 10,000 customers that I just
6 mentioned, and it also provides additional
7 capacity so that there can be additional load
8 added to that line over time.

9 Q And is there a population growth in that part of
10 Bullitt County?

11 A Correct. We -- we have some statistics quoted in
12 the discovery about that population growth. We're
13 seeing both population growth, growth in the
14 commercial area. If you have ever driven down
15 that part of the interstate, you realize it is
16 heavily dominated by the logistics industry
17 associated with UPS. There are up to 8 million
18 square feet of new logistics facilities, some of
19 that is detailed in the discovery again, that have
20 plans to install facilities, a big heating load,
21 not a process load but a heating load, that that
22 would require. And, obviously, as those
23 facilities are installed, they need a significant
24 number of workers, and that creates some of the
25 need for the population growth.

1 There's commercial load growth in that area,
2 too, with two large customers that have expressed
3 a desire to increase their uses of natural gas in
4 their process, more of a process-oriented use of
5 natural gas. So all of those factors consider
6 into what we can and can't supply for that system
7 in the future.

8 Q Okay. Thank you. And could you summarize for the
9 Commissioners why LG&E believes it does not need a
10 certificate of public need and -- excuse me,
11 public convenience and necessity for this project?

12 A Sure. We assessed, you know, the need for a CPCN.
13 And it really came back to the thought that I just
14 expressed, that it was a normal expansion of our
15 system, it was part of our normal planning process
16 both to consider the reliability implications of a
17 particular portion of our system and also consider
18 the needs for load growth.

19 Obviously, the magnitude of the project is
20 not something that we do every single day, but it
21 -- the purpose and the goal of the project were to
22 address issues that we deal with on a day-to-day
23 basis. So we saw it as a normal extension of our
24 system, normal course of business type activity.

25 Q Okay. Should the Commission conclude that CPCN is

1 necessary, to your knowledge has LG&E provided
2 through discovery all the information that the
3 Commission would need to consider granting a CPCN
4 for the project?

5 A I believe that we have. There was a question
6 along those lines, and we provided all the
7 information. And we can most certainly go back if
8 the Commission desires as a post-hearing data
9 request and review that and see if any of that
10 information needs to be supplemented or
11 information that may not have been available at
12 the time that question was asked is now available.
13 If the Commission desires that, we would be happy
14 to do that.

15 Q That would be helpful. So as a post-hearing data
16 request, should there be information to
17 supplement, to review the information you have
18 provided about the project, whether additional
19 information, new information, if you would please
20 include that.

21 A We can do that.

22 COMMISSION STAFF: I have no more
23 questions.

24 MR. SCHMITT: Commissioner Cicero,
25 questions?

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MR. CICERO: I don't have any questions.

MR. SCHMITT: Mr. Logsdon?

MR. LOGSDON: I have no questions.

MR. SCHMITT: I have no questions. Counsel for any of the intervenors, do you have any questions?

INTERVENORS: (Moved heads from side to side).

MR. SCHMITT: Any follow-up?

APPLICANT STAFF: No, Your Honor.

MR. SCHMITT: In that case, may this witness be excused?

COMMISSION STAFF: He can be excused.

MR. SCHMITT: You can step down, then, and you are excused. Thank you.

Call your next witness.

APPLICANT STAFF: Yes, sir. We call Mr. John Wolfe.

JOHN K. WOLFE,

the witness herein, having first been duly placed under oath, was examined and testified as follows:

DIRECT EXAMINATION

BY APPLICANT STAFF:

1 Q Please state your name for the record.

2 A John K. Wolfe.

3 Q Your title, Mr. Wolfe.

4 A Vice president of electric distribution operations
5 for Louisville Gas and Electric Company and
6 Kentucky Utilities Company.

7 Q Mr. Wolfe, did you cause to be prepared, to be
8 filed in both of these cases rebuttal testimony
9 for Kentucky Utilities and LG&E?

10 A Yes, sir.

11 Q Are you also sponsoring testimony from what is
12 referred to as the second stipulation for LG&E and
13 KU?

14 A Yes.

15 Q If I were to ask you the questions contained in
16 your pre-filed testimony at this point, would your
17 answers be the same?

18 A Yes.

19 Q Do you adopt them as part of your testimony today?

20 A Yes, I do.

21 APPLICANT STAFF: Thank you,
22 Your Honor. No further questions.

23 MR. SCHMITT: Any questions from
24 staff?

25 COMMISSION STAFF: No. The staff

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does not have questions.

MR. SCHMITT: Commissioner Cicero?

MR. CICERO: No questions.

MR. SCHMITT: Commissioner Logsdon?

MR. LOGSDON: No, sir.

MR. SCHMITT: I have none. Counsel
for any of the intervenors?

INTERVENORS: No, sir.

THE COURT: I assume that you may
step down and this witness may be excused.
Thank you.

THE WITNESS: Thank you.

MR. SCHMITT: Call your next
witness, please.

APPLICANT STAFF: Mr. John Malloy.

JOHN P. MALLOY,

the witness herein, having first been duly placed
under oath, was examined and testified as follows:

DIRECT EXAMINATION

BY APPLICANT STAFF:

Q Good morning, Mr. Malloy.

A Good morning.

Q Would you state your full name, business title and
business address for the record, please.

A John P. Malloy, vice president of gas

1 distribution, 220 West Main Street, Louisville,
2 Kentucky.

3 Q Okay. Mr. Malloy, did you cause to be filed in
4 the record of this proceeding direct and rebuttal
5 testimony in response to certain data requests?

6 A I did.

7 Q Other than there was an errata filed I think
8 regarding your title. Can you describe your title
9 change.

10 A Yes. My testimony was around vice president of
11 customer service business. Recently I've moved to
12 vice president of gas distribution.

13 Q Okay. Thank you. Subject to that change, are
14 there any other corrections that you need to make
15 to your testimony today?

16 A Not that I am aware of.

17 Q All right. So if I ask you the same questions
18 that were in your testimony previously and the
19 data requests that you responded to, would your
20 answers be the same?

21 A They would.

22 Q Thank you, sir.

23 APPLICANT STAFF: He is available
24 for questioning, sir.

25 MR. SCHMITT: Any cross-examination

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from staff?

COMMISSION STAFF: No. Staff has no questions.

MR. SCHMITT: Mr. Cicero?

MR. CICERO: No questions.

MR. SCHMITT: Mr. Logsdon?

MR. LOGSDON: No, sir.

MR. SCHMITT: Do counsel for any of the intervenors have any questions?

INTERVENORS: No, sir.

MR. SCHMITT: If not, you may step down and you are excused.

THE WITNESS: Thank you.

MR. SCHMITT: Call your next witness.

APPLICATION STAFF: Thank you, Your Honor. We would call David Sinclair.

DAVID S. SINCLAIR,

the witness herein, having first been duly placed under oath, was examined and testified as follows:

DIRECT EXAMINATION

BY APPLICANT STAFF:

Q Good morning, Mr. Sinclair.

A Good morning.

Q Mr. Sinclair, will you state for the record your

1 full name, business address and title, please.

2 A David S. Sinclair. I am vice president of energy
3 supply and analysis for LG&E and KU services. My
4 business address is 220 West Main Street,
5 Louisville, Kentucky.

6 Q Thank you. And, Mr. Sinclair, did you prepare or
7 cause to be prepared direct and rebuttal testimony
8 in response to certain data requests in this
9 proceeding?

10 A Yes, I did.

11 Q If I asked you those questions again today, would
12 your answers be the same?

13 A Yes, but with one minor -- two minor corrections.

14 Q What are those corrections, please.

15 A Okay. In my direct testimony on footnote 13,
16 let me get that out here, the last sentence says,
17 "Service to the remaining 10 cities will terminate
18 on April 30th, 2019." The number "10" should be
19 changed to number "8."

20 Q Okay.

21 A And in my rebuttal testimony on page three,
22 line 12, it says, "Due to 11 wholesale municipal
23 customers giving notice of termination," that
24 number "11" should be changed to number "9."

25 Q Thank you. Subject to those corrections, would

1 the other responses to the questions in your
2 testimony and data requests be the same?

3 A Yes, they would.

4 Q Okay. Thank you.

5 APPLICANT STAFF: The witness is
6 available for questioning, Your Honor.

7 MR. SCHMITT: Cross-examination
8 from staff?

9 COMMISSION STAFF: Thank you,
10 Your Honor.

11 **CROSS-EXAMINATION**

12 **BY COMMISSION STAFF:**

13 Q Mr. Sinclair, I would like to show you a data
14 response that was filed by LG&E in the Admin 387
15 case.

16 COMMISSION STAFF: If we can have
17 it marked for identification as staff
18 cross-examination Exhibit 1, please.

19 MR. SCHMITT: That will be so
20 marked.

21 (Exhibit 1 marked)

22 MR. SCHMITT: It is Staff Exhibit 1
23 for purposes of identification.

24 **BY COMMISSION STAFF:**

25 Q The individual who responded to this was a Michael

1 Sebourn. Do you know a Mr. Sebourn?

2 A Yes, I do.

3 Q Does he work for you?

4 A Yes, he does.

5 Q Have you seen this response previously?

6 A I have seen the data in this response previously.

7 Q Okay. Let me ask you a couple of questions.

8 In order to calculate the megawatt -- I'm sorry,
9 calculate the reserve margin, do you divide the
10 megawatt margin by the net load?

11 A Yes.

12 Q Okay. And if we look at the third line down, the
13 net load in -- for this year it is 6,806 and the
14 next year is 6,805 and then there is a fairly
15 substantial 250 megawatt drop in 2019.

16 Does that represent the Kentucky municipals
17 leaving the system?

18 A That would include that impact, yes.

19 Q Okay. And do you know whether this reflects the
20 corrections that you just made to your testimony
21 of the number of municipals leaving the system?

22 A Yes, this is correct.

23 Q Okay. So this reflects the lower number of
24 municipals?

25 A This reflects the actual number of municipals that

1 will be terminating on May 1st of 2019, which is
2 8.

3 Q Okay. So this is up-to-date?

4 A Yes.

5 Q Okay. If we look at the bottom note it says,
6 "Capacity Needed for 16 percent." Is that -- is
7 16 percent the company's target reserve margin?

8 A That is our, I'll say, minimum reserve margin as
9 part of the IRP filing, as you may recall, that we
10 do an analysis of what the optimal reserve margin
11 is, which tries to look at two different factors,
12 as I think you may be aware.

13 One is the cost of capacity versus the cost
14 of what we'll call in-service energy, meaning if
15 you don't have enough capacity to serve load.
16 So we try to balance that.

17 The other factor that we look at in the
18 industry is what they call loss of load
19 probability or a one day in ten year event. That
20 number is actually a bit higher and that -- and
21 the 16 percent number is closer to 21 percent.
22 But what we show in this table is kind of the
23 lowest end of the reserve margin range, which is
24 based on the cost of capacity versus the cost of
25 extra energy and trying to minimize that, balance

1 those two.

2 Q Okay. So if you entered into the -- what is shown
3 on -- 1, 2, 3, 4 -- the fifth line, the Bluegrass
4 Capacity Purchase and Tolling Agreement, the 165
5 megawatt purchases, and that was in -- when the
6 municipals indicated that they were going to
7 terminate and the company then decided not to
8 proceed with the combined cycle facility at the
9 Green -- or Green River, is that...

10 A Well, the context for the Bluegrass deal is that
11 at the -- in the summer of 2013 we prepared the
12 load forecast, which then led to the initial CPCN
13 filing in, I think it was, December of '13 for the
14 Green River 5. The forecast at that time showed
15 that we would be potentially short capacity from
16 2015 through 2018.

17 You may recall that prior to that we had
18 retired about 797 megawatts of coal-fired units
19 and built Cane Run 7, which is only 640 megawatts,
20 so we are actually net down from where we had been
21 prior to those coal plants being retired.

22 And so based on the forecast of economic
23 conditions and other things at that time, we were
24 expected to be short prior to Green River 5 coming
25 on-line, which wouldn't be until 2018. So the

1 idea -- so we ran an RFP that said given that
2 shortfall what are the least cost options to meet
3 that. And the Bluegrass tolling arrangement was
4 the least cost resource to meet that shortfall in
5 that time period.

6 Since then, since the 2013 time period,
7 economic conditions have changed. I mentioned in
8 my testimony we had the paper mill that was
9 50 megawatts that went away in 2015. So other
10 situations have occurred. But based on what we
11 knew at the time, there was that shortfall in
12 that interim period before Green River 5 would
13 come on-line.

14 Q Okay. So if you had not entered into the
15 Bluegrass Tolling Agreement, if we were to
16 recalculate the reserve margin for 2017, I would
17 kind of calculate that as being 19.1 and for 2018
18 it is 19.3?

19 A I'll assume your math is correct. That sounds
20 about right. And, again, I would point out that
21 21.6 and 21.8 that we show there in 2017 and '18
22 is -- well, it is, basically, the 21 percent loss
23 of load probability number that we talked about as
24 the upper end of our target reserve margin range.
25 So we are at the upper end right now.

1 Q Okay. And then in 2019, according to this
2 schedule, 2019, 2020, 2021 you're above the upper
3 end, are you not?

4 A We would be, yes.

5 Q And do you know when that reserve margin is
6 projected to come down?

7 A It will be a function of a lot of things. One,
8 you know, future economic conditions and load
9 growth. Again, this is the -- as, again, I think
10 you are aware, in our RFP filings in other cases,
11 you know, we file a range of load forecasts. This
12 is the middle point of that range.

13 But the other thing that I would point out on
14 the supply side is, is I think we're -- you are
15 aware, there is still some pending environmental
16 regulations that are going to have to be dealt
17 with, particularly around what we call effluent
18 limit guidelines. While the U.S. EPA has recently
19 gone back and is going to revisit those
20 guidelines, the State has regulations in place
21 that we're in the process of evaluating them,
22 those implications.

23 And, so, in evaluating those, revisiting what
24 are our options to -- the least cost way to comply
25 with those. So in that least cost planning, we

1 would be looking at what our load obligations are.
2 And so that may influence whether we install
3 controls or not, for example, on certain units or
4 retire those units.

5 So all of that information will be captured.
6 What this reflects is the status quo, as we have
7 the -- without any potential changes due to
8 effluent guidelines or other environmental
9 regulations that could come along the way.

10 Q Do you know the last time that LG&E and KU had a
11 combined reserve margin of 24 percent or higher?

12 A I don't know off the top of my head, no.

13 Q Do you recall if they've ever had that reserve
14 margin?

15 A I don't know sitting here today.

16 Q Okay. Thank you.

17 COMMISSION STAFF: I have no
18 further questions. We move to introduce the
19 exhibit.

20 MR. SCHMITT: Any objections? It
21 may be introduced into the record.

22 Commissioner Logsdon, do you have
23 any questions?

24 MR. LOGSDON: Could you get -- as a
25 post-hearing data request, could you provide

1 if you have ever had a 24 percent reserve
2 margin?

3 THE WITNESS: Sure. We could go
4 back and get that information.

5 MR. SCHMITT: Counsel for the
6 intervenors, do you have any questions for
7 the witness?

8 INTERVENORS: I don't believe so.

9 MR. SCHMITT: In that case, you may
10 stand down and you are excused.

11 THE WITNESS: Thank you.

12 MR. SCHMITT: You may call your
13 next witness.

14 APPLICANT STAFF: Thank you,
15 Your Honor. We'll call Mr. Arbough, please.

16 **DANIEL K. ARBOUGH,**
17 the witness herein, having first been duly placed
18 under oath, was examined and testified as follows:

19 **DIRECT EXAMINATION**

20 **BY APPLICANT STAFF:**

21 Q Would you please state your name.

22 A Daniel K. Arbough.

23 Q And what is your title and business address?

24 A My title is treasurer for both LG&E and KU.
25 My address is 220 West Main Street, Louisville,

1 Kentucky.

2 Q Did you file direct testimony in these cases?

3 A I did.

4 Q And did you also file rebuttal testimony in these
5 cases?

6 A Yes.

7 Q And did you sponsor certain data responses in
8 these cases?

9 A I did.

10 Q And if I were to ask you the same questions that
11 were in those two pieces of testimony and in those
12 data responses, would your answers be the same?

13 A They would.

14 APPLICANT STAFF: The witness is
15 available for cross-examination.

16 MR. SCHMITT: Cross-examination by
17 staff?

18 COMMISSION STAFF: The staff has no
19 questions.

20 MR. SCHMITT: Commissioner Cicero?

21 MR. CICERO: No questions.

22 MR. SCHMITT: Commissioner Logsdon?

23 MR. LOGSDON: No, sir.

24 MR. SCHMITT: I have no questions.

25 Does counsel for any of the intervenors have

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any questions for the witness?

INTERVENORS: No.

MR. SCHMITT: If not, you may stand down and you are excused.

THE WITNESS: Thank you.

MR. SCHMITT: Call your next witness, please.

APPLICANT STAFF: We call Mr. Garrett, please.

CHRISTOPHER M. GARRETT,

the witness herein, having first been duly placed under oath, was examined and testified as follows:

DIRECT EXAMINATION

BY APPLICANT STAFF:

Q Mr. Garrett, would you state your name, please, for the record.

A Christopher M. Garrett.

Q Would you state your title.

A I'm the director of rates for LG&E and KU services company.

Q Did you cause to be prepared and file in both of these cases direct or rebuttal testimony for LG&E and KU?

A Yes, I did.

Q If I were to ask you the questions contained in

1 those pre-filed testimonies this morning, would
2 your answers be the same?

3 A Yes, they would.

4 Q And do you adopt and affirm your testimony this
5 morning?

6 A Yes, I do.

7 APPLICANT STAFF: Mr. Garrett is
8 available for cross-examination.

9 MR. SCHMITT: Any cross-examination
10 from staff?

11 COMMISSION STAFF: The staff has no
12 questions.

13 MR. SCHMITT: Mr. Cicero?

14 MR. CICERO: No questions.

15 MR. SCHMITT: Mr. Logsdon?

16 MR. LOGSDON: No questions.

17 MR. SCHMITT: Counsel for any of
18 the intervenors?

19 INTERVENORS: (Moved head from side
20 to side).

21 MR. SCHMITT: In that case, you may
22 step down and you are excused.

23 THE WITNESS: Thank you.

24 MR. SCHMITT: Call your next
25 witness, please.

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APPLICANT STAFF: We call

Ms. Scott.

MR. SCHMITT: Is Ms. Scott the last witness?

APPLICANT STAFF: She is, with this caveat, that I wish to re-call Mr. Blake again for a question that was raised yesterday, a series of questions. So I will call him after Ms. Scott.

VALERIE L. SCOTT,

the witness herein, having first been duly placed under oath, was examined and testified as follows:

DIRECT EXAMINATION

BY APPLICANT STAFF:

Q Would you please state your name.

A Valerie L. Scott.

Q And what is your title and business address?

A I am the controller of LG&E and KU. And my business address is 220 West Main Street, Louisville, Kentucky.

Q Were you the responsible witness for certain data responses that were filed in this case?

A Yes, I was.

Q And if I were to ask you those same questions here today, would your answers be the same?

1 A Yes, they would.

2 APPLICANT STAFF: The witness is
3 available for cross-examination.

4 MR. SCHMITT: Any cross-examination
5 from staff?

6 COMMISSION STAFF: The staff has no
7 questions.

8 MR. SCHMITT: Commissioner Cicero?

9 MR. CICERO: I have no questions.

10 MR. SCHMITT: Mr. Logsdon?

11 MR. LOGSDON: No questions.

12 MR. SCHMITT: I have no questions.

13 Are there questions from counsel for any of
14 the intervenors?

15 INTERVENORS: No.

16 MR. SCHMITT: If not, you may step
17 down and you are excused.

18 THE WITNESS: Thank you.

19 MR. SCHMITT: Counsel, I believe
20 you wanted to re-call Mr. Blake.

21 APPLICANT STAFF: I do, Your Honor.
22 May I re-call Mr. Blake?

23 MR. SCHMITT: Yes. Mr. Blake, you
24 remain under oath from yesterday.

25 THE WITNESS: Thank you.

1 MR. SCHMITT: Counsel, you may
2 proceed.

3 **REDIRECT EXAMINATION**

4 **BY APPLICANT STAFF:**

5 Q Mr. Blake, yesterday there was a discussion in the
6 hearing room concerning your -- Exhibit 1 to your
7 direct testimony, --

8 A Yes.

9 Q -- your benchmark analysis to that.

10 A Yes.

11 Q Do you recall that discussion?

12 A I do.

13 Q Specifically, the discussion and the question was
14 asked about the administrative and general metric
15 shown in that benchmark analysis.

16 A Yes, it was.

17 Q Do you have a comment --

18 A I'm sorry. I'm distracted by the screen.

19 Q Do you have a comment on what that benchmark
20 analysis shows under administrative and general?

21 A Sure. I believe that the questions of Mr. Meiman
22 yesterday, he did not have -- he was not familiar
23 with the exhibit or the study, so he could not
24 answer it.

25 The question was whether or not the fact that

1 we just missed top quartile in our most recent
2 benchmark study, whether that was a product of our
3 benefits programs. This data, it is a study we've
4 done for 13 years. The -- and it is based off
5 from when data is most readily available,
6 information on utilities across the country. I
7 had asked those questions when I saw this year's
8 study. Because, again, we were six cents away --
9 six cents per megawatt hour away from being top
10 quartile. We were the second company in the
11 second quartile. So I -- I had questions about
12 why that was.

13 What we discovered, and, again, information
14 is a little bit limited, you can't get too far
15 underneath that top level with other utilities but
16 you can get in a layer below, and I saw some of
17 the layers below where we did stand out a little
18 bit higher than I expected. One of those was in
19 the area of maintenance, which seemed odd, on
20 administrative and general. I believe maintenance
21 and outside services, if I recall.

22 So I asked my controller, Ms. Scott, to --
23 she's a member of the Edison Electric Institute
24 Accounting Group. So I asked her to do a survey.
25 They will occasionally send a question out among

1 utilities across the country and solicit
2 responses, trying to figure out what was going on
3 there, were we doing something different than
4 other utilities. And what we found was every
5 respondent would take IT, information technology,
6 costs that were tied to generation systems and
7 push those costs out to generation for accounts.
8 They would take those costs that were tied to
9 transmission systems and put those out into
10 transmission systems, distribution, et cetera.

11 We used a rolling five years in this study to
12 avoid single year anomalies, so we didn't have all
13 of the data to do it. But in looking at the data
14 for the years we had, if we had taken our IT cost
15 that were tied directly to those operating systems
16 and pushed them out into other areas, as other
17 utilities did, we would actually, I believe, be
18 top quartile by administrative and general in
19 addition to remaining top quartile in generation,
20 transmission and distribution and customer
21 service, which, again, I'm very impressed by and
22 have been since we have been doing this survey.
23 One, you know, it says we're at least better than
24 75 percent, in most cases more than 75 percent of
25 other utilities in the industry. At the same

1 time, we have a best-in-class safety record. We
2 have outstanding reliability statistics. And we
3 have shelves full of J.D. Power awards. And we're
4 doing that at some of the lowest costs in the
5 country.

6 So, again, I've -- I've been impressed by
7 that. I think that is a function of the 3,600
8 employees we have and continue to stand by that as
9 being, you know, very impressive.

10 Q Mr. Blake, there was a discussion yesterday about
11 the compensation and benefits. As the CFO of LG&E
12 and KU, do you have a view on the company's
13 healthcare and medical insurance expense relative
14 to competitors?

15 A I do. Obviously, as Mr. Meiman indicated, we look
16 at that annually among the executive team. And
17 while Mr. Staffieri forgot this yesterday, I am
18 actually on the board. I'm the fifth board member
19 of LG&E and KU -- LG&E and KU Energy. So we do
20 look at this at least annually.

21 On the medical and dental benefits, we have,
22 as the trend has gone in the industry, we have
23 moved more to the employee over the last couple of
24 years. And we continue to look at that every
25 year, including other trends, should we go to more

1 co-insurance and less co-payments, et cetera.

2 As I looked at the analysis that was
3 requested just this past week and the percentages
4 that were thrown out, I think as we looked at --
5 and it is a little complicated, more complicated
6 for us being a self-insured medical plan, but as I
7 looked at the way the data was pulled together,
8 the employer portion, employee portion, and the
9 percentages that were used, using 2016 in
10 isolation, I think we were within \$900,000 of --
11 on a \$38 to \$39 million annual expense.

12 Within that close of a range on that size or
13 number and given the nature and structure of our
14 plans would suggest to me that that could just as
15 easily have gone the other way, depending on a
16 particular year, depending on what medical plans
17 our employees chose and, quite honestly, what
18 medical costs they incurred in that particular
19 year.

20 So I do believe that our medical and dental
21 benefit -- and I think dental actually went the
22 other way, relative to the percentages that were
23 used in the data requests. So I believe our
24 medical and dental benefits are market
25 competitive.

1 Q Do you have a view about whether your long-term
2 disability and life insurance are competitive?

3 A I do. I certainly -- I believe they are
4 competitive or I wouldn't be pushing for changes.
5 I think Mr. Meiman did an excellent job
6 explaining, obviously, the dangers associated with
7 the utility industry and the challenges associated
8 with that and the demands on employees. So I
9 think providing long-term disability and life
10 insurance at what I gathered from the data was
11 still in that range of market competitiveness as a
12 multiple salary subject to a cap. So, again, we
13 offered it at two times -- offered life insurance
14 at two times salary up to that cap.

15 Q Do you have a view as the CFO about the
16 competitiveness of the company's 401(k) savings
17 plan match?

18 A This one actually surprised me. When I saw the
19 data request, the fact that the company has
20 offered a defined benefit plan as well as
21 encouraging employees to save for their own
22 retirement by providing a match up to a certain
23 limit has been in effect at the company -- at our
24 company for decades now. And I don't think we are
25 alone in that. I think many of our competitors

1 with which we compete for talent have done the
2 same, whether that be the utility industry or
3 similar industries that we draw talent from.

4 In fact, I think as we closed out our defined
5 benefit plan, the new entrants, and instead
6 offered new hires starting January 1st, 2006 a
7 retirement income account, which was a company
8 contribution to retirement savings plan without a
9 requirement for an employee to give, I think -- as
10 Mr. Meiman stated, I think we -- we moved quicker
11 than most in the utility industry. There are
12 still -- and other large companies. There are
13 still some that provide it. I agree that it is a
14 shrinking population, but there are a number of
15 other companies that still provide that in the
16 utility industry and outside.

17 Most of the -- with this trend away from
18 defined benefit plans, and I was supportive of
19 that, to -- because it does have a long-term
20 obligation, it is more challenging to manage from
21 a company's perspective, so moving to more of a
22 retirement savings only plan for new employees I
23 think was the right decision for the company.

24 It does come with risk. We've talked about
25 our employee retention. Obviously, a retirement

1 savings plan is more affordable. An employee can
2 choose to leave and take that with them. Whereas
3 a defined benefit plan, I hate to use this term
4 because it sounds a little crude, but you have
5 deeper hooks into your employees with a defined
6 benefit plan. However, I do think it was the
7 right thing to do.

8 We have since continued to look at ways to
9 limit and reduce our exposure on that obligation
10 through our asset portfolio and the pension trust,
11 de-risking that, matching the assets with the
12 underlying obligations based on projected
13 retirements. So I think that has been helpful.
14 And just this last year, in 2016, we actually
15 offered or changed our plan to offer a lump sum
16 payment obligation or payment to retirees which
17 would benefit the company from the standpoint of
18 shrinking that tail of a long-term obligation.

19 Q Mr. Blake, as the CFO, what has been your
20 experience about turnover at the company?

21 A Again, that -- that was also discussed yesterday,
22 so I appreciate you asking me.

23 Historically what we have seen is probably
24 two to four percent annual turnover. And that
25 goes -- has gone back for a number of years.

1 About four or five years ago that started to trend
2 up, went up to about five percent. Over the last
3 couple of years it is closer to eight percent.
4 Some of that reflects the demographics of our
5 population. We have had more retirements in the
6 last few years. Like other companies, we have
7 got -- the baby boomers are heading towards
8 retirement. That is a large component of our
9 population. So...

10 But there is still that underlying sort of
11 two to four percent annual turnover. I think
12 that's good still relative to -- to our industry,
13 other industries, and I think that's important.
14 It takes years in many of our skilled professions
15 for an employee to be proficient. So turnover
16 comes at a great cost, comes at a great risk,
17 could jeopardize some of the metrics both on
18 reliability, safety, cost, performance basis,
19 customer satisfaction for that matter.

20 Personally, without studies in hand, I tend
21 to -- as I look at all of the comp and benefits,
22 if there is a thought that we don't have turnover
23 because our comp and benefits are unduly rich, I
24 haven't seen that personally. We tend to lose our
25 fair share of employees both to other states, to

1 other utilities, and to other companies in town.
2 We attract some as well. But we don't have
3 employees staying with us, I mean, and not leaving
4 because the benefits are too rich or the
5 compensation is too high.

6 And, generally speaking, when I have posted
7 positions, both within my organizations, whether
8 if be finance, accounting, information technology,
9 we generally don't have a long list of qualified
10 applicants for most positions. So it is not -- it
11 is not that easy to find replacement talent. I
12 believe Mr. Bellar is seeing the same thing across
13 operations on engineers.

14 Quite honestly, when it comes to some of the
15 higher -- some of the hotter areas now, be it
16 information technology, cyber security,
17 engineering, a utility is not the sexiest employer
18 out there, right? We're not the start-up tech
19 company that folks can make a fortune off of.
20 We're not GE creating the latest gadgets and
21 appliances for homes.

22 So I think we do pretty well attracting
23 bright talent. I think the results speak for
24 themselves. And that, to me, suggests that our
25 compensation and benefits overall are reasonable

1 and helpful in doing that.

2 Q My last question, then, Mr. Blake. As the CFO of
3 LG&E and KU, do you have a view of the company's
4 compensation and benefits overall relative to the
5 market?

6 A Again, I feel like I'm being repetitive. I think
7 we are competitive. I think we continue to look
8 at it. I think we move more quickly on things
9 like the nature and structure of medical and
10 dental benefits, because employees sort of expect
11 changes year to year, and that is not only
12 disruptive. We certainly look at compensation
13 regularly, you know, annually at least, and can
14 make adjustments there, particularly given the
15 increased turnover we're having. We're actually
16 bringing our average compensation level down
17 because that's where we think -- in areas where we
18 think we can do that.

19 Areas like retirement plans are certainly a
20 lot more challenging to change on a dime. These
21 are long-term commitments that you have made to
22 employees who have been with you for a long time.
23 In most cases, you have seen the average tenure of
24 our employees. In fact, I'm reminded of it
25 monthly. I get an e-mail. There is a news

1 transmission that goes out across the company
2 listing all of the retirees for that given month
3 and that list has been pretty long every month for
4 a while now. And -- and we always add up the
5 total years of service on all those employees and
6 you typically have 30, 35, 40, 45 years of service
7 among a lot of those employees.

8 So we really, again, have -- while we
9 continue to look at that, we will continue to look
10 at things like the amount of the 401(k) match. Is
11 that market competitive? But I think overall it
12 has been in place for quite sometime and it has
13 served us well and I think the results speak for
14 themselves.

15 Q Thank you.

16 APPLICANT STAFF: That's all the
17 questions I have for Mr. Black.

18 MR. SCHMITT: Cross-examination
19 from staff?

20 COMMISSION STAFF: Yes. I have a
21 few questions.

22 **RE-CROSS-EXAMINATION**

23 **BY COMMISSION STAFF:**

24 Q Good morning, Mr. Blake.

25 A Good morning.

1 Q Can you clarify a couple of things for me?

2 A Uh-huh.

3 Q Yesterday when Mr. Meiman in his testimony I think
4 -- I was confused about something, and I want to
5 make sure I understand it, that for those
6 employees who are eligible for the defined benefit
7 program, the RIA annual contribution, are they
8 eligible for that or not?

9 A No. Not the -- the -- the RIA, which is the
10 employer drop-in, doesn't require a match.

11 Q Uh-huh.

12 A The employees who were hired before January 1st,
13 2006 do not get that. So, again, we put the RIA
14 in place when we froze entry into the defined
15 benefit plan.

16 Q Are the defined -- for those who are eligible, for
17 the bargaining unit employees is it in the union
18 contract the possibility to have both the defined
19 benefit and defined contribution; is that part of
20 the negotiated contract?

21 A Yes. It is a subject of negotiations and it is
22 every time the contract comes up for renewal.
23 If I could add something there.

24 Q Please.

25 A Because I know in the discovery and in some of the

1 discussion yesterday there was a -- there has been
2 a distinction made, and I think I can understand
3 the rationale between the union and nonunion
4 employees.

5 We have -- and it is probably the product of
6 a merger of KU and LG&E back at the end of 1998.
7 That union versus nonunion distinction for some
8 companies is maybe a little bit easier because for
9 a given role or job, typically it is either union
10 or not union, right?

11 Q Uh-huh.

12 A In our case, we have employees that do the exact
13 same function. Some of them are union because
14 they grew up on the LG&E side; some are nonunion
15 because they grew up on the KU side and it has
16 traditionally been less of a union shop.

17 So I -- I -- we have consistently post-merger
18 tried to not advantage one over the other,
19 particularly in cases where, again, employees are
20 doing the same job, just one happens to be union,
21 one happens not to be.

22 Q Thank you for that. That was going to be one of
23 my questions.

24 A Okay.

25 Q So, very good.

1 When you mentioned the turnover at LG&E and
2 KU compared to other utilities, can you give us a
3 sense of what other -- what kind of turnover might
4 be industry-wide for utilities? Do you have a
5 sense of that?

6 A I -- I don't have -- I haven't seen studies or
7 data. It is my understanding in what I have
8 gotten from our HR department, is -- is we may be
9 a little bit better. And I say "better" by being
10 a little bit lower on turnover. And, again, I
11 think that has served us well. And, again, I
12 don't know. Just as, I think, some of the
13 discussion yesterday, I don't know the cause of
14 that. And I don't know what you can tie it to.
15 Because at the end of the day if you are comparing
16 numbers they are just numbers.

17 We, obviously, conduct exit interviews with
18 employees when they do leave. You typically don't
19 conduct surveys of employees on why you are
20 staying, although we do do annual employee opinion
21 surveys and we tend to get a lot of positives
22 across the board on that, in terms of a great
23 place to work, they feel like their work is
24 valued. Honestly, I think -- well, while I can't
25 do it with surveys, I mean, I can -- if I look at

1 some of the folks that I know that have come and
2 gone over the years, so I see more people probably
3 leave the company because they are in a hot
4 industry at the time and they want to go make some
5 more money, I haven't seen or heard many people on
6 an interview come here to our company because they
7 can make more money. I -- I -- maybe that's the
8 case, maybe they just wouldn't say that in an
9 interview, but I haven't seen that.

10 Q Okay. With your caveat about comparing numbers,
11 by any chance do you know a comparison of turnover
12 rates to similarly-sized businesses within the
13 LG&E and KU footprint?

14 A I -- I -- I don't have that data. Again, I -- I
15 think when you compare against general industry, I
16 think you kind of need to look to the industry.
17 There are industries that are more specialized,
18 more technical. For example, I would say UPS, for
19 example, that a large component of their
20 population, you know, loads and unloads trucks,
21 right? They use college students for a lot of
22 that. I would assume their turnover rate is much
23 higher. I haven't seen the numbers, but I would
24 assume their rate would be higher. I don't know
25 with regard to other employees. I -- I'd have

1 to -- I'm sure we have the data within the HR
2 department. I just don't have it with me and I
3 haven't looked at it recently.

4 COMMISSION STAFF: I have no more
5 questions.

6 MR. SCHMITT: Commissioner Cicero,
7 questions?

8 MR. CICERO: You had mentioned, in
9 discussing the medical benefits, that you
10 evaluated annually and then would make a
11 decision on whether to increase the share or
12 whatever; is that correct?

13 THE WITNESS: Not the board in that
14 case. Generally, it is sort of an executive
15 group at LG&E and KU.

16 MR. CICERO: Okay. I thought I
17 read in the submitted data that there was a
18 scale, that if it was zero to four percent
19 the company absorbed the increase, if it was
20 four to eight percent I think it was shared,
21 and if it was over eight percent then there
22 was a discussion on how the increase would be
23 shared; is that correct?

24 THE WITNESS: That -- that's
25 correct. And that provision, I think, I

1 think is embedded in our union contracts as
2 well. That relates to the employee premium.

3 So if we project the medical costs
4 and the premium and the increase is going to
5 be four percent or less, the company would
6 pick that up. The next four percent,
7 employees would pick that up. And everything
8 above that would be 50/50. But it is on the
9 premium only. So what we have done over the
10 last couple of years is we've worked more
11 with co-pays, deductibles, maximum out of
12 pockets, we've moved those.

13 MR. CICERO: It is a self-insured
14 program?

15 THE WITNESS: Yes.

16 MR. CICERO: And, so, it is
17 experience that drives the cost increase or
18 cost decrease?

19 THE WITNESS: It is.

20 MR. CICERO: Do you try to use the
21 benefits that are bargained and apply those
22 to all other employee classes? In other
23 words, if you bargain in a certain benefit,
24 then that applies to all non-exempt/exempt?

25 THE WITNESS: We -- we -- yeah.

1 We -- we generally have. We generally
2 offered the same medical plan options to all
3 3,600 employees, union or nonunion.

4 MR. CICERO: All the way up?

5 THE WITNESS: In fact, if I am not
6 mistaken, I believe our union contract has a
7 'me too' language with respect to medical
8 benefits. So...

9 MR. CICERO: Well, in terms of the
10 bargaining unit contract, negotiated contract
11 would be whatever the negotiated contract is
12 that's worked out between the parties; right?

13 THE WITNESS: Right.

14 MR. CICERO: And applying those to
15 nonrepresented employees, is where I was
16 going.

17 THE WITNESS: Uh-huh.

18 MR. CICERO: If you take whatever
19 you bargained with the represented employees
20 and then applied those and said, for example,
21 you're going to in the next four years see a
22 two percent, three percent, and four percent
23 pay increase, do you apply that philosophy to
24 the nonrepresented employees?

25 THE WITNESS: I'm sorry. You are

1 moving out of compensation?

2 MR. CICERO: I'm still in
3 compensation.

4 THE WITNESS: Okay.

5 MR. CICERO: I used salary as an
6 example.

7 THE WITNESS: Okay.

8 MR. CICERO: But we could go to a
9 difference and talk about how the savings
10 program works.

11 THE WITNESS: Right. Yeah.

12 MR. CICERO: We bargain and we'll
13 do a company match up to seven percent and
14 that's exactly what we give --

15 THE WITNESS: Right.

16 MR. CICERO: -- to nonrepresented
17 employees?

18 THE WITNESS: I would say it is not
19 as hard and fast of a rule in terms of its
20 everything is dollar for dollar the same. We
21 do try to make sure that the overall package
22 is comparable. For example, if -- if we did
23 something more in one area of benefits and
24 there was something less on the salary
25 because that other area of benefits was more

1 important to the union members, we may find
2 ourselves, say, giving nonunion employees or
3 administrative, other areas a different
4 number without making a corresponding change.
5 So we've done a little bit of movement but
6 tried to overall make sure that the comp and
7 benefits package is -- is very similar.

8 And one issue we ran into a couple
9 of years ago, actually, was a -- and I'm
10 going to forget the HR term, but it is
11 impressions, I think is the term, where
12 supervisors versus union employees, we have
13 to make sure that we maintain that right
14 compliment relative to the market between the
15 laborer and the supervisor.

16 MR. CICERO: In terms of, I'm going
17 to switch here a little bit, on the turnover.

18 THE WITNESS: Uh-huh.

19 MR. CICERO: You said it was two to
20 four but recently it has gone to five to
21 eight. Yesterday Mr. Meiman indicated that
22 the majority of that was retirement. Are you
23 saying today that it is not primarily
24 retirement?

25 THE WITNESS: I'm saying that I

1 think the majority of the increase is
2 retirement. I think we have to --

3 MR. CICERO: So the two to four
4 level is pretty much constant?

5 THE WITNESS: That -- that has been
6 pretty much constant with a much lower level
7 of -- of retirements in the mix. I think if
8 you looked at -- if you took retirements out
9 of it and looked at other forms of
10 separation, I think you would be in that --
11 you know, sort of that two to four percent
12 area.

13 MR. CICERO: So as a post-hearing
14 data request, can you supply what those
15 percentages are, retirement versus all other
16 turnover?

17 THE WITNESS: Sure.

18 MR. CICERO: You made the statement
19 on retirement savings, only that there was no
20 contribution, that those that were employed
21 after 1/1/06 had a retirement savings only.
22 But you really meant to say they had not only
23 a retirement RIA account but also they
24 participated in the company matched savings
25 account?

1 THE WITNESS: They received a match
2 up to a certain level of their own
3 contribution, yes.

4 MR. CICERO: And from a competitive
5 standpoint, LG&E and KU and the people that
6 are managing it believe that that's a --
7 having two retirement plans for their
8 employees is only market competitive but it
9 is not?

10 THE WITNESS: I -- I -- I don't
11 think -- I guess what I think I said or tried
12 to say is I think our overall compensation
13 and benefits offering is not unduly generous.
14 It is not creating a, you know, a line for
15 blocks of employees wanting to work for us.
16 And it is not resulting in no turnover. It
17 is resulting in some turnover, albeit
18 hopefully a little lower than others.

19 I don't have a lot of detailed
20 studies on what everyone else is offering.
21 I'm going more by what I have seen out there.
22 And I've looked around. And, for example,
23 the -- last fall, I believe there was an
24 article that referenced that a large number
25 of -- or some Fortune 500 companies are still

1 offering new entry, new employees a defined
2 benefit plan. And I looked at the list, and
3 I think it was the top ten that they
4 highlighted, two of those were utilities,
5 Southern Company and Dominion Resources. The
6 other eight were from other industries,
7 Johnson and Johnson and some others. I don't
8 have a study on -- that shows who, whether it
9 is a hard freeze, soft freeze, or still allow
10 entry into a defined benefit plan, who offers
11 defined benefit and provides that employee
12 matches as an incentive for employees to save
13 for their own retirement. It is more
14 intuitive. And it is -- just from everything
15 that I have read, as people have moved away
16 from new entry into defined benefit plans,
17 every article that I have seen always says
18 they offered enhanced employer contributions
19 to a retirement savings plan, not they
20 started to offer employer contributions to
21 retirement savings plan but "enhanced." And,
22 so, I've always read that as we're certainly
23 not alone in that camp of, since I guess
24 1989, having offered an incentive for
25 employees to save themselves as well as a

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defined benefit plan.

MR. CICERO: So if the Commission were to look at the contributions made into the salary savings match plan, the nonrepresented employees would not be eligible for rate making purposes, what would the company do with the represented employees?

THE WITNESS: Quite honestly, I am not sure. Because, again, I -- I -- I've never thought about it, really, until just this week or yesterday considered that a possibility. So I wouldn't want to speculate sitting here until I would see what the Commission did. I would have to think about it. Again, we don't make changes to our retirement plans abruptly, on a whim. So we would have to be very thoughtful about that implied contract that we have with our existing employees.

We would be concerned about massive turnover, adverse impacts on operations, and our ability to run the company as effectively as we have in the past. So we would have to think about a lot of things, I guess is what

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I am saying.

MR. CICERO: And you may have supplied it already. But if you haven't, can you supply the number of bargained employees that are participating in both the defined dollar benefit and the salary saving and then that are participating in the RIA, participating in savings, and then everyone else that is nonrepresented who is participating in the DBP and the 401(k) and then also the RIA and the 401(k) so that we can see what the number of employees are --

THE WITNESS: Sure.

MR. CICERO: -- that are in each group?

THE WITNESS: We can provide that. I am not sure -- I'm with you, I am not sure if it is in the responses that we've provided already. But I think there was some -- already some post-hearing data requests in this area, so we will certainly include that, make sure that that is included in the response.

MR. CICERO: Okay. Thank you. I have no other questions.

1 MR. SCHMITT: Commissioner Logsdon?

2 MR. LOGSDON: No questions.

3 MR. SCHMITT: I have no questions.

4 Does counsel for any intervenor have any
5 questions?

6 INTERVENORS: (Moved head from side
7 to side).

8 MR. SCHMITT: If not, anything
9 counsel would like to clear up?

10 APPLICANT STAFF: No, Your Honor.
11 Thank you.

12 MR. SCHMITT: The witness may be
13 excused.

14 THE WITNESS: Thank you.

15 MR. SCHMITT: Are those all of the
16 witnesses that you have to offer?

17 MR. RIGGS: Yes. Your Honor, that
18 concludes all of our witnesses that have
19 supported testimony or data responses.

20 MR. SCHMITT: I think that there
21 were a couple of other witnesses and other
22 parties, one from KICU; is that correct?

23 MR. KURTZ: Yes, Your Honor.

24 MR. SCHMITT: And would you care to
25 go on and call your witness?

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MR. KURTZ: That would be
Mr. Barron.

STEPHEN J. BARRON,

the witness herein, having first been duly placed
under oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. KURTZ:

Q Would you state your name and business address.

A Yes. Stephen J. Barron. My business address is
J. Kennedy and Associates, Inc., 570 Colonial Park
Drive, Suite 305, Roswell, Georgia 30075.

Q Did you submit direct and supplemental testimony
in this case?

A Yes.

Q If I were to ask you the same questions as those
contained therein, would your answers be the same?

A Yes, they would.

Q Any corrections or additions?

A Not that I am aware of.

INTERVENORS: Your Honor, I tender
the witness for cross.

MR. SCHMITT: Cross-examination
from the staff?

COMMISSION STAFF: Yes.

=====

1 **CROSS-EXAMINATION**

2 **BY COMMISSION STAFF:**

3 Q Good morning, Mr. Barron.

4 A Good morning.

5 Q Can I have you first refer to KICU's response to
6 Staff's second request for information, item one?

7 A I do have that with me, if you would just give me
8 just a moment to find it.

9 Q But of course. Just let me know when you are
10 there.

11 (Witness peruses documents)

12 A Yes. The second request for information?

13 Q Yes, the second question for information.

14 A Yes, I have that.

15 Q You have it?

16 A (Moved head up and down).

17 Q And in this request it deals with the methodology
18 used in the cost of service study and the
19 corrected cost of service study in regard to KU's
20 tariff's FLS, the fluctuating load service.

21 A Yes.

22 Q All right. In your response I want to confirm
23 that you say that there is a significant problem
24 with KU's FLS data; is that correct?

25 A Yes. I -- I -- as I discussed in my supplemental

1 testimony, I continue to believe that there are
2 problems with the data, with -- and it is really
3 the methodology that -- that -- as I discussed.
4 And I used FLS as an example because it is a --
5 there is a single customer on that rate schedule,
6 so it is easy to conceptualize the problem that I
7 have identified.

8 But as I indicated, I believe it really
9 encompasses the methodology that is used for all
10 -- the two year projections. It is projecting
11 8,760 hours of load data from a historic period to
12 two years into the future for all the classes.

13 Q And because of your concerns that you have raised
14 about methodology, is it also correct that you
15 believe that KU's BIP and LOLP cost of service
16 studies are not reliable?

17 A That's correct. And I should say that I do --
18 that I and KICU support the stipulation in this
19 case that has resolved the, at least for the
20 stipulating parties, the increases.

21 But in answer to your question, yes, I
22 believe because of the hourly load data concerns
23 that I have that the cost studies should not and
24 cannot be relied on.

25 Q Have you read KU's response to staff's fifth

1 request for information, item one, and the
2 supplemental rebuttal testimony of Mr. Seelye?

3 A Yes, I have.

4 Q Given the company's, or KU's, response in both the
5 data request and rebuttal testimony, do you still
6 believe the cost of service studies filed by the
7 companies are unreliable?

8 A Yes. I -- I read the data response and the sub --
9 rebuttal testimony, but I do continue to disagree
10 and believe that the hourly load data, the issues
11 that I have discussed in my supplemental
12 testimony, where I focused on the relationship
13 in -- in -- just in focusing on FLS between demand
14 and energy in my view have not really been
15 adequately addressed, and I believe it is the
16 methodology that is at the problem -- the heart of
17 the problem.

18 Q Okay. One moment, please.

19 (Commission staff confers)

20 COMMISSION STAFF: Thank you. I
21 have no further questions.

22 MR. SCHMITT: Commissioner Cicero?

23 MR. CICERO: No questions.

24 MR. SCHMITT: Mr. Logsdon?

25 MR. LOGSDON: No questions,

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Your Honor.

MR. SCHMITT: I have no questions. Does counsel for intervenors have any questions for this witness?

INTERVENORS: No.

MR. SCHMITT: Counsel, any redirect?

APPLICANT STAFF: Just one moment, if I could, please.

(Applicant staff confers)

APPLICANT STAFF: We have no questions, Your Honor. Thank you.

MR. SCHMITT: All right. You may step down and you are excused.

THE WITNESS: Thank you, Your Honor.

MR. SCHMITT: We have one more witness. Let's take a 15 minute break before we start the last witness. We'll recess until 20 'til 11.

(10:21 a.m. BREAK 10:37 a.m.)

MR. SCHMITT: Please be seated. Okay. We are back on the record. And I think there is one witness yet remaining, and that would be Mr. Wilhite from the Kentucky

1 School Board Association. Mr. Malone, are
2 you...

3 MR. MALONE: Yes, Your Honor.

4 MR. SCHMITT: Okay. Would you
5 please call Mr. Wilhite.

6 MR. MALONE: Yes.

7 **RONALD L. WILHITE,**

8 the witness herein, having first been duly placed
9 under oath, was examined and testified as follows:

10 **REDIRECT EXAMINATION**

11 **BY MR. MALONE:**

12 Q Mr. Wilhite, if you could state your name for the
13 record.

14 A Ronald L. Wilhite.

15 Q And business address.

16 A 260 Democrat Drive, Frankfort, Kentucky.

17 Q And your position with the Kentucky School Board
18 Association?

19 A I'm the director of the school energy management
20 project.

21 Q Did you cause to be filed direct testimony,
22 supplemental testimony, and data requests --

23 A Yes, I did.

24 Q -- in this matter? And if I were to ask you the
25 same questions, would your answers be the same

1 today?

2 A Yes.

3 Q Okay. Do you have any alterations, corrections,
4 or additions to your testimony?

5 A Just what I submitted in my supplemental
6 testimony.

7 Q I'm sorry?

8 A Just what I submitted through my supplemental
9 testimony.

10 Q Okay. Thank you.

11 MR. MALONE: The witness is
12 available for cross-examination,
13 Mr. Chairman.

14 MR. SCHMITT: Thank you. Staff,
15 cross-examination?

16 COMMISSION STAFF: Yes.

17 **RE-CROSS-EXAMINATION**

18 **BY COMMISSION STAFF:**

19 Q Good morning, Mr. Wilhite.

20 A Good morning.

21 Q Can I have you turn to the stipulation agreement,
22 section 4.11, the optional pilot rates for the
23 schools.

24 A Okay. Is that the tariff sheets or?

25 Q Just the -- the -- just the agreement itself.

1 A Okay. I would need -- I don't have the agreement
2 per se with me.

3 MR. MALONE: 4.1?

4 COMMISSION STAFF: 4.11.

5 MR. MALONE: 4.11, okay.

6 (Counsel hands document to witness)

7 A Okay. Yes.

8 Q Okay.

9 A Did you say 4.1? I see 4.1.

10 MR. MALONE: Page 15.

11 COMMISSION STAFF: Yeah, page 15.

12 A Okay. I'm there. Sorry.

13 Q So to start with, what -- how will this program
14 work, is what I am going to get at with all of my
15 questions.

16 A Okay.

17 Q So let's start with the ultimate objective of this
18 pilot. What is it -- what is the purpose of it?

19 A Well, to determine whether or not the public
20 school -- school buildings are -- should be on a
21 separate school rate.

22 Q And you said public schools. That is only --
23 right now it is only the public schools that will
24 be in this program under KRS 160.325?

25 A Yes. That's correct. Because -- because of the

1 enactment of KRS 160.325, the public school
2 districts in order to meet their compliance
3 requirements under that statute put in place
4 utility trackers to take the data from the utility
5 bills, put them into spreadsheets/software so that
6 -- so that they would have a record of the utility
7 usage in buildings.

8 Q And are schools doing that currently?

9 A Absolutely, absolutely.

10 Q So your -- how long have you been collecting data?

11 A Since 2010.

12 Q And for -- how many schools throughout Kentucky
13 have that?

14 A There are 173 public school districts, and each of
15 those 173 public school districts are complying
16 with that statute.

17 Q And from that data that has been collected since
18 2010, what will be different data collected under
19 this pilot program?

20 A Well, it will be continued -- I mean, it will be
21 updated data, for one. But I think it will
22 provide more information between the companies and
23 the school -- the schools about how schools
24 actually operate.

25 And let me just, if I can, just explain. A

1 school district -- there is a school in my mind,
2 which is a learning center, and then there is a
3 school district. And what we're looking for here
4 would be applying the rate to that learning
5 center. The school is -- like with KU, there are
6 nearly 1,000 accounts, school accounts by
7 districts that they serve. The pool of learning
8 center accounts from KU, there's like 243 of
9 those.

10 Because schools not only have learning
11 centers, they have pumps, they have concession
12 stands, they have lighting. They have all kinds
13 of accounts that would -- central offices, bus
14 garages. So those accounts would stay on the
15 rates they are currently serving.

16 Q So to be sure I understand, what we're talking
17 about here is strictly the school building, the
18 building itself?

19 A Primarily -- the accounts where -- primarily where
20 the learning occurs, okay?

21 Q Okay. And when you say that the studies will
22 create more information, what do you mean by that?

23 A More information, I think it is more information
24 to be shared and understood about how schools
25 operate. It has always seemed to me that schools

1 -- schools just operate different than the other
2 -- many of the other customers that are on those
3 tariffs. I mean, schools are out of session from
4 June through -- pretty much through much of August
5 now with the new legislation that has come into
6 play. They only operate -- they only are fully
7 occupied during defined hours during the day. So,
8 to me, that's a much different operational
9 situation than would be other customers that are
10 on the PS and TOD tariffs.

11 Q The data that has been tracked since 2010, is that
12 shared with utilities in some formal way now,
13 other than the billing obviously?

14 A It's not in detail. It could be made -- it is
15 available, because the data is reported annually
16 back to the executive and legislative branches to
17 comply with the statute.

18 But as far as the -- well, let me -- for
19 every district that would be involved, no. But
20 through our energy management arrangement with
21 LG&E and KU, there is data reported back under
22 reporting requirements of those arrangements.

23 Q And as I understand -- can you confirm that under
24 this study there will be seven hundred and fifty
25 -- an offset of a revenue cap of \$750,000 for each

1 of the entities, so that it would be 1.5 million
2 total?

3 A For the -- for the two companies, yes.

4 Q For both. How will schools be selected?

5 A Okay. Well, we're in the initial stages of that.
6 The first thing we've done is that we have -- we
7 know the pool and we have the historical building
8 data for those -- each of those accounts, and so
9 we're making a calculation of -- between the
10 school rate, the SPS, and the PS, create a value
11 for each of those accounts. And then they'll --
12 those -- they're -- then those accounts will be
13 selected up until they reach that cap of \$750,000
14 for each utility.

15 Our thinking is, is that there are 62 of
16 those -- 62 districts that have at least one
17 account or one building on either the PS or TOD
18 tariff currently. Our thinking -- and we,
19 obviously, have to run this by our districts and,
20 obviously, have conversations with the company.
21 But our thinking is that every district -- the
22 first pass would be for every district to have a
23 school participate in the pilot. And, that way,
24 there is no one left out.

25 And then what we're still considering,

1 thinking about it, how do we take -- allocate or
2 assign what remaining dollars are leftover. And
3 it seems to me it needs to be based on the
4 relative size. Some districts only have one
5 school, one building; some have 150, okay? So we
6 have to come up with what we think, recommend
7 would be a fair way to select participants.

8 Q And when you say "we," are you talking about the
9 Kentucky School Board Association?

10 A The Kentucky School Board Association in
11 collaboration with those districts.

12 Q Can you refresh my memory. How long is the study
13 proposed to last?

14 A Well, I think you heard yesterday, I think it will
15 last until the next rate case.

16 Q So there is no definitive end point at this point?

17 A That's my understanding.

18 COMMISSION STAFF: I think that's
19 all the questions I have.

20 MR. SCHMITT: Thank you.

21 Mr. Cicero?

22 MR. CICERO: Just to clarify, I
23 think the end point yesterday was until the
24 next rate case or until the 750,000 from each
25 company was used up. There is a one and a

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half million cap; am I correct?

THE WITNESS: That's not my understanding. My understanding is that was the annual cap on an annual building basis.

MR. CICERO: That is definitely something that the Commission will have to have cleared up, because I definitely thought it was one and a half million total. You are saying one and a half million annually?

THE WITNESS: Yes.

MR. CICERO: And that's a question.

MR. SCHMITT: It does say -- it says, "Will be available to new participants until the total projected revenue impact reduction for each utility is \$750,000 annually compared to the projected annual revenues for the participating schools under the rates which they otherwise would be."

MR. CICERO: Okay. So that is \$750,000 that goes to the next rate case or it ends in the period of the year if they use up the one and a half million dollars annually?

THE WITNESS: Correct.

MR. CICERO: Could there be gaps in

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data, then, if there was consumption that exceeded the one and a half million dollars in an annual year?

THE WITNESS: I don't -- I think if it got to -- this would be monitored. And if the situation occurred or that amount exceeded the -- that amount, we would have to make an adjustment by eliminating a participant.

MR. CICERO: So you just eliminate the number of schools participating in order to ensure that you reach the end goal?

THE WITNESS: I think that's what our intent was. Obviously, we could think some more about that. But...

MR. CICERO: So let me ask you a couple of other questions.

Is it typical for a school campus to have multiple meters?

THE WITNESS: Yes.

MR. CICERO: You mentioned that it would only be for the learning centers, an administrative or, you mentioned, some outdoor activities, lighting, concessions, and those sorts of activities would remain

1 under the other rate, that would not be...

2 THE WITNESS: (Moved head up and
3 down).

4 MR. CICERO: So what do you do for
5 -- is the gymnasium normally on another
6 meter? That is an outdoor...

7 THE WITNESS: No. Typically, no.
8 But there are some that are separate, very,
9 very few.

10 MR. CICERO: The only reason why I
11 mention it is because it is difficult to say
12 outdoor lighting, which probably consumes
13 more energy for a football event but a
14 gymnasium in a nighttime activity. And there
15 is, obviously, plenty more basketball games
16 than there are football games and they occur
17 usually in the same meter as the learning
18 center and they occur for several months.
19 How would you segregate those out of this?

20 THE WITNESS: I don't -- I don't
21 think it would really be possible to do it
22 without considerable expense of putting in
23 separate metering. I don't know if it is
24 practical. And learning does occur in the
25 gymnasium, physical education classes and

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things like that.

MR. CICERO: Well, you are making the argument that people learn a lot about themselves when they play a football game because it builds character or whatever you want to say.

THE WITNESS: They do.

MR. CICERO: Mr. Meiman made some comments yesterday about people contributing through their sweat and equity and we were talking about a monetary contribution. And in this case we are looking at the -- you know, how we're going to have a program that really segregates out.

Is it feasible to do that, what you are talking about? I think there is still a question surrounding that program. At this point, I guess we'll wait to see what the final pilot looks like.

THE WITNESS: (Moved head up and down).

MR. CICERO: I don't have any other questions.

MR. LOGSDON: I don't have any questions.

1 MR. SCHMITT: Mr. Wilhite, are
2 classes often taught in gymnasiums?

3 THE WITNESS: There are some
4 classes, physical education.

5 MR. SCHMITT: Such as physical
6 education?

7 THE WITNESS: Physical education.

8 MR. SCHMITT: Are athletic events
9 that are part of the school activities also
10 considered instructional, considered a part
11 of the -- an important part of the school
12 environment?

13 THE WITNESS: I think definitely
14 they are considered a part of the
15 environment.

16 MR. SCHMITT: And are athletic
17 events monitored by school teachers,
18 principals, and coaches?

19 THE WITNESS: Typically, yes.

20 MR. SCHMITT: If there is an
21 athletic event, aren't certified personnel
22 required to be present?

23 THE WITNESS: I believe that's --
24 yes.

25 MR. SCHMITT: I know you are not an

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educator per se. You are an energy expert, correct?

THE WITNESS: Correct.

MR. SCHMITT: How did this program under 4.11, or you say 4.1, optional pilot rates for schools subject to KRS 160.325, what was the genesis of that program? Who started it? Who thought it up?

THE WITNESS: I guess we did, I did, recognizing that, first of all, that, just a general observation that schools had different operating conditions and hours than other folks do. I mean, if you look at -- the schools basically are in session most weekdays from 7:30 to maybe 3 o'clock. A lot of schools get out at 2:30 even or earlier, especially some elementary students. There is a considerable amount of downtime in schools. If you look at the hours in a year, an elementary school is only in full occupancy a fourth of those 8,760 hours a year.

So I guess intuitively you say, look, is there a difference between the way schools operate and others in that class?

1 And so explore, you know, what that means in
2 terms of the cost consequences of the -- of
3 their utility service.

4 MR. SCHMITT: So you believe -- I
5 saw you had a study apparently or some
6 statistics, some analysis that was in your
7 written testimony that indicated your belief
8 or opinion that the schools, public schools,
9 should be on a different rate unto
10 themselves; is that correct?

11 THE WITNESS: Well, of course we're
12 an advocate for public schools.

13 MR. SCHMITT: Well, I understand
14 that. I know you are. But don't you -- do
15 you have some rate experience?

16 THE WITNESS: Yes.

17 MR. SCHMITT: And tell us what that
18 is.

19 THE WITNESS: Well, I worked for
20 the Kentucky Utilities and LG&E for 33 years.

21 MR. SCHMITT: Doing what?

22 THE WITNESS: Just about
23 everything, it seemed like. But it varied
24 from -- varied from system planning into
25 rates and regulatory.

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MR. SCHMITT: And what is your experience in rates and regulatory?

THE WITNESS: Rates and regulatory?

MR. SCHMITT: Yes.

THE WITNESS: Well, I guess it is fairly extensive in terms of -- in terms of years. I think I -- from 1973 to 2001 I was in rates, regulatory, the name's changed throughout that portion of my career, and oversaw the department, section at the end of my career.

MR. SCHMITT: Well, what did that involve? Let me -- I'm trying to get to the point.

When you worked for Kentucky Utilities, did you work on, basically, rate cases where the company would come before the Public Service Commission --

THE WITNESS: Yes, yes.

MR. SCHMITT: -- and seek rate increases?

THE WITNESS: Yes, sir.

MR. SCHMITT: And what were your responsibilities in that regard?

THE WITNESS: Various. I typically

1 could have sponsored tariffs,
2 recommendations. I could have sponsored the
3 cost studies. Primarily that would have been
4 it.

5 MR. SCHMITT: Well, the reason I
6 ask is, is that I know you worked for the
7 Kentucky School Board Association, but I'm
8 just trying to understand, you had a chart or
9 charts that were in your testimony that was
10 previously filed; correct?

11 THE WITNESS: Correct.

12 MR. SCHMITT: And you made some
13 kind of analysis that you believe that
14 schools, Kentucky public school districts,
15 were overpaying in terms of utilities --

16 THE WITNESS: That's correct.

17 MR. SCHMITT: -- electric
18 utilities?

19 THE WITNESS: Yes.

20 MR. SCHMITT: Please explain why.

21 THE WITNESS: Okay. Well, I -- I
22 -- I took the company's -- one of the
23 company's cost of service studies and I
24 separated out for the schools, these 243 KU
25 accounts and 116 LG&E accounts. I pulled

1 those out of the otherwise PS and TOD rate
2 classes that they currently receive service
3 on. And so using their cost of service
4 study, I made that separation and identified
5 what the rate of return would be on this --
6 these -- these -- for this group of schools.
7 And that showed results that the rate return
8 for that -- that -- those schools was greater
9 than the system average return and in some
10 cases greater than the return on that rate
11 class.

12 MR. SCHMITT: And do you know
13 whether or not the typical schedule of a
14 Kentucky public school, in terms of time
15 students come to school and they leave and
16 the number of days in a year that they attend
17 school, how that compares with nonpublic
18 schools?

19 THE WITNESS: No, I don't.
20 I don't.

21 MR. SCHMITT: Has the Kentucky
22 School Board Association made any attempt to
23 date to reach out or talk to nonpublic
24 schools about their, basically, experience in
25 energy management or whether, perhaps, they

1 ought to be considered to be a part of this
2 program?

3 THE WITNESS: We have had some
4 conversations with some of the private
5 schools, but not -- not particularly with
6 regard to this rate schedule, no.

7 MR. SCHMITT: You indicated, I
8 guess in your testimony, your previously
9 filed testimony, that Kentucky schools I
10 guess and school districts report energy
11 savings to someone in State government.

12 THE WITNESS: (Moved head up and
13 down).

14 MR. SCHMITT: To whom do they
15 report this information?

16 THE WITNESS: Okay. Pursuant to
17 that statute, 163.5, that statute directs
18 reporting to the LRC and to the Department
19 for Energy Development & Independence, which
20 is a section of Kentucky's Energy and
21 Environment Cabinet.

22 MR. SCHMITT: And the Legislative
23 Resource Commission is the LRC?

24 THE WITNESS: Yes.

25 MR. SCHMITT: And do you get

1 feedback from these people? Do the schools
2 get feedback or do they just report it and it
3 goes into, you know, a building and that's
4 it?

5 THE WITNESS: Well, we've not
6 gotten any -- I would say I am not aware of
7 direct feedback. I mean, we have gone before
8 the Energy subcommittee a couple of times to
9 report on what schools are doing, followed
10 the statute that came forward from the
11 General Assembly, and, you know, feedback is
12 always positive when those -- those
13 conversations are held.

14 MR. SCHMITT: In terms of -- are
15 you familiar with how a school or a school
16 district is financed?

17 THE WITNESS: Pretty much.

18 MR. SCHMITT: Okay. Tell us what
19 you -- how you understand a Kentucky school
20 district receives funds with which to
21 operate.

22 THE WITNESS: Well, most of their
23 funds come through property taxes, either
24 local -- local property taxes or they come --
25 it comes back to school districts through the

1 SEEK, the SEEK apportion in the districts.

2 MR. SCHMITT: The SEEK is a formula
3 that is used by the State Department of
4 Education pursuant to statute to comp money
5 back into local school districts; is that
6 correct?

7 THE WITNESS: That's correct. Yes.

8 MR. SCHMITT: And to try to
9 equalize the amount each student gets no
10 matter where he goes to school?

11 THE WITNESS: That's correct.

12 MR. SCHMITT: So a student in
13 Menifee County ought to be roughly equivalent
14 in terms of the money spent on his education
15 to one in Fayette County; is that a fair
16 statement?

17 THE WITNESS: That's -- that's --
18 yes.

19 MR. SCHMITT: The -- if moving
20 forward -- I know you -- this plan, the
21 agreement, I guess the stipulation and
22 recommendation which was filed for Commission
23 consideration contains an additional, I
24 guess, plan or pilot project in 4.7, sports
25 field lighting pilot tariff provisions. Is

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that also applicable? Is that part of the Kentucky School Board initiative?

THE WITNESS: Well, that -- that came to our attention from a school district in Western Kentucky, Muhlenberg County, who had a sports complex developed and they experienced a -- in the normal course of business, as that facility grew it qualified for another -- another rate that's made quite a bit of increase in dollars.

So I -- you know, I recognized that in my testimony and said that, you know, there should be consideration given to a rate for sports fields.

MR. SCHMITT: Well, I mean, when I read the post-stipulation or settlement agreement, what I initially concluded, that 4.7 and 4.11, both optional pilot projects are for determined rates, were both part of the Kentucky School Board Association initiative; is that correct?

THE WITNESS: I would say it is correct more than just -- you know, Muhlenberg I think first expressed their interest in it, probably through the public

1 comments or some manner. You know, we
2 picked -- we picked up on it to support.

3 MR. SCHMITT: No, no. No, I am not
4 saying -- I mean, you may not have invented
5 it or be the architect of it.

6 But if -- whenever this settlement
7 occurred, the Kentucky School Board
8 Association put forward the sports field
9 lighting pilot tariff provisions as part of
10 its initiative and received a favorable
11 response from all of the parties here, in
12 terms of getting that put in the agreement;
13 is that correct.

14 THE WITNESS: Well, I think it is
15 more correct to say that getting involved in
16 discussions, okay? And, because we didn't --
17 I didn't -- I didn't put forward a plan for
18 the school tariff. I put forth a suggested
19 tariff sheet. I didn't -- I didn't put forth
20 a tariff here.

21 But we did, obviously, concur with
22 the sports field tariff. Now, my
23 understanding is that tariff will be
24 available to other than -- other than
25 schools. It would be open to, I think it is,

1 twenty -- 20 participants and they are not
2 restricted to being --

3 MR. SCHMITT: Being schools?

4 THE WITNESS: Being a school, yes.

5 MR. SCHMITT: Well, who determines
6 who those participants are? Is that the
7 utility that determines that?

8 THE WITNESS: That would be -- that
9 would be the utility, yes.

10 MR. SCHMITT: So it might be open
11 to city parks and playgrounds?

12 THE WITNESS: Yes. That's my
13 understanding.

14 MR. SCHMITT: Nonpublic schools?

15 THE WITNESS: Yes.

16 MR. SCHMITT: Whoever might want to
17 apply?

18 THE WITNESS: Yes.

19 MR. SCHMITT: Correct?

20 THE WITNESS: Correct.

21 MR. SCHMITT: During the course of
22 your, I guess, negotiations or all of the
23 parties' negotiations, did anybody consider
24 or discuss or did the Kentucky School Board
25 Association the applicability of KRS 278.035?

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Let me pass this out to you. Do you know what that statute is?

THE WITNESS: I -- I believe I do. Let me make sure.

MR. SCHMITT: Okay. Let me give it to the court reporter, too.

Would counsel like to have a copy?

MR. MALONE: Mr. Chairman, I'm familiar with this statute.

MR. SCHMITT: You are familiar with it?

MR. MALONE: Yes.

MR. SCHMITT: Well, if anyone would like a copy, I have 20 copies here in case anyone would like one.

KRS 278.035 says, "Any entity receiving public school funds from the Commonwealth of Kentucky or any political subdivision thereof for the purpose of offsetting at least 50 percent of its operational expenses shall not be entitled to preferential retail rates for services provided by utilities subject to the provisions of KRS Chapter 278."

Now, did you know that statute

1 existed?

2 THE WITNESS: Yes, sir.

3 MR. SCHMITT: Or the Kentucky
4 School Board Association --

5 THE WITNESS: Yes.

6 MR. SCHMITT: -- know that it
7 existed?

8 THE WITNESS: Yes. I did, too.

9 MR. SCHMITT: And was that
10 discussed during the terms of the settlement
11 negotiations, to your knowledge? I don't
12 know if you were even present. Were you
13 present when the settlement was reached?

14 THE WITNESS: Yes, I was. I was.
15 Yes, that --

16 MS. STURGEON: Your Honor, I
17 apologize for the interruption. You know,
18 when we entered into settlement negotiations
19 at the front-end, we did agree among all
20 those present that those would be
21 confidential. And --

22 MR. SCHMITT: Well, look, this is a
23 public hearing and the public, the tax -- the
24 ratepayers are subsidizing the -- if you are
25 telling me that Kentucky Utilities and

1 Louisville Gas and Electric intends to pay
2 these costs out of its own pocket and not the
3 ratepayers, fine. If you don't, I'm going to
4 ask the question and you can object or
5 counsel can advise him not to answer.

6 MS. STURGEON: We have no concern
7 with you asking the questions. The only
8 concern we have is about what went on in the
9 negotiation room. Certainly if you have a
10 question about the applicability of the
11 statute, no objection with that.

12 MR. SCHMITT: Well, I intend to ask
13 counsel about it on the record as soon as I
14 finish questioning this witness. But you can
15 instruct him not to answer.

16 MR. MALONE: No, no, no. I think
17 what she is -- what she is garnering at is
18 just the way the question was asked, that
19 asking what went on in the settlement
20 negotiations as opposed to the applicability
21 of the statute.

22 MR. SCHMITT: Well, you know, then
23 you are going to have to tell him not to
24 answer. Because I want to know if there was
25 a discussion of this statute at the time the

1 settlement was negotiated. That's all I want
2 to know. I am not getting into any details.
3 Was there a discussion of that statute at the
4 time?

5 MR. MALONE: Please answer that.
6 That's fine.

7 THE WITNESS: Yes.

8 MR. SCHMITT: All right. If --
9 if -- and I know you are not the only party,
10 Kentucky School Board Association is not the
11 only party to this proceeding. But if as a
12 -- if as a predicate or condition for
13 approving this settlement the Kentucky School
14 Board Association was asked to reach out to
15 two or three nonpublic schools to see if they
16 would be interested in participating in this
17 program, would the Kentucky School Board
18 Association be willing to do it?

19 THE WITNESS: I would think so.

20 MR. SCHMITT: And I know you are
21 not Kentucky Utilities or Louisville Gas and
22 Electric.

23 But do you believe that nonpublic
24 schools, assuming that the data would
25 establish that schools should have -- public

1 schools should have a rate unto themselves,
2 do you believe that nonpublic schools should
3 have the benefit of that same tariff or that
4 same rate class, assuming that all else was
5 equal and their electricity use was virtually
6 essentially the same?

7 THE WITNESS: Well, I think that's
8 a possibility. I do make one
9 differentiation, and that is the nonpublic
10 schools are not subject to this statute that
11 requires the public schools to develop and
12 implement monitoring reports on energy plans.

13 MR. SCHMITT: But they pay electric
14 bills, though.

15 THE WITNESS: They do. They do.

16 MR. SCHMITT: And I'm sure they are
17 sensitive, if not more sensitive, to costs
18 than public schools. I know you are -- I've
19 read KRS 163.25, and I am not fussing at you.
20 But it just seems to me that if a school,
21 that schools educate the sons and daughters
22 and relatives of ratepayers, whether it is a
23 public school, a Catholic school, a Baptist
24 school, or an atheist school or a Muslim
25 school, and I can't see why that ratepayer

1 funds, alright, ought to be going into a
2 project that benefits only one group of
3 students and not all students. That's my
4 point. You don't even have to comment, okay?

5 I have no further questions. Do
6 any intervenors have any questions?

7 INTERVENOR: I do have one
8 question, Your Honor.

9 MR. SCHMITT: Okay.

10 **RE-CROSS-EXAMINATION**

11 **BY INTERVENOR:**

12 Q Mr. Wilhite, can you confirm that the
13 Muhlenberg County schools that were mentioned
14 earlier dealing with the sports field issue, can
15 you confirm that that's the same Muhlenberg County
16 entity that filed public comments into the record?

17 A Yes.

18 Q And it's correct that they are technically owned
19 by the Muhlenberg County Board of Education, who
20 are a member of KSBA; is that correct?

21 A That is correct.

22 Q Thank you.

23 INTERVENOR: That's all I have.

24 MR. SCHMITT: Anything else? Any
25 comments, questions from counsel for any of

1 the other intervenors?

2 MR. MALONE. No. I'm good,
3 Your Honor.

4 MR. SCHMITT: Okay. May this -- if
5 there are no further questions for
6 Mr. Wilhite, you may be excused.

7 COMMISSION STAFF: Staff has one
8 clarification. We want to make sure.

9 MR. SCHMITT: Yes.

10 **FURTHER CROSS-EXAMINATION**

11 **BY COMMISSION STAFF:**

12 Q The Muhlenberg parks department also filed a
13 request to intervene that was denied with the
14 opportunity to treat it as a public comment in our
15 file. That is not the same Muhlenberg you are
16 discussing?

17 A It is. It is the --

18 Q So it is not the parks department?

19 A Well, the --

20 Q It is the sports field?

21 A The location is owned by the public school system
22 of Muhlenberg County. They have some form of
23 interlocal agreement that you typically see in
24 counties and for the parks and recreation
25 department to operate those -- those facilities.

1 So they are -- we're talking about one in the same
2 sports complex.

3 Q I wanted to clarify that. Thank you.

4 COMMISSION STAFF: Your Honor, one
5 minute, please.

6 (Commission staff confer)

7 BY COMMISSION STAFF:

8 Q Mr. Wilhite, can you confirm what you said today,
9 that schools in the general, in both KU and LG&E's
10 service territories, are served under multiple
11 tariffs?

12 A That's correct. I can give you the numbers, if
13 you would like.

14 Q No, that's okay. What I'm wondering, the \$750,000
15 per entity, will the revenue -- that \$750,000 per
16 company, will that revenue be made up from the
17 rate -- the applicable rate class from which the
18 schools are members or will it be made up from all
19 rate classes?

20 A I don't know that I know how to answer that.
21 I mean, it is part of the end result of the
22 settlement that has been presented.

23 Q So you don't know if the 1.5 million total was
24 being picked up by other rate classes?

25 A No, I really -- I really don't know. I mean, it

1 -- it...

2 Q Okay. One moment, please.

3 (Commission staff confers)

4 COMMISSION STAFF: This question is
5 really for LG&E and KU counsel.

6 Is there someone from the companies
7 who can answer that question, about the
8 revenue offset?

9 APPLICANT STAFF: Yes.

10 COMMISSION STAFF: And who is that?

11 APPLICANT STAFF: It would be
12 Mr. Conway.

13 COMMISSION STAFF: Mr. Conway.

14 APPLICANT STAFF: Or Mr. Seelye.

15 MR. SCHMITT: Yeah, we'll ask him
16 to re-take the stand.

17 COMMISSION STAFF: I have no more
18 questions for you, Mr. Wilhite.

19 MR. SCHMITT: Mr. Cicero?

20 MR. CICERO: How many years is this
21 one and a half million dollars applicable
22 for?

23 THE WITNESS: It would be until the
24 next rate case and then subject to whatever
25 determination is made then.

1 MR. CICERO: So if it is five
2 years, then it becomes seven and a half
3 million dollars; if it's four years, it is
4 \$6 million. It is just all dependent. Five
5 years is when I think they said they would
6 probably have to come in for another rate
7 case. So seven and a half million dollars is
8 being devoted to this case, just so I
9 understand, potentially seven and a half
10 million dollars for this project?

11 THE WITNESS: If it is that long,
12 yes.

13 MR. CICERO: Okay. No further
14 questions.

15 MR. SCHMITT: I would just like to
16 make one statement. I am not hostile to your
17 position or Kentucky School Board's position.
18 I understand the need for energy savings in
19 public schools. I represented ten school
20 districts in Eastern Kentucky before I came
21 here, so I understand. But...

22 And there is no obligation on
23 Kentucky School Board Association. And, in
24 fact, it couldn't probably come in and
25 represent any nonpublic school district. You

1 wouldn't be able to do that. You couldn't
2 spend the funds probably legally from your
3 dues paying members.

4 But it did seem to me in reading
5 the statute that if this plan perhaps is
6 nondiscriminatory in favor of a public entity
7 which gets most of its funding from the
8 Commonwealth of Kentucky and from local tax
9 payors or other units of government, that
10 perhaps the inclusion of schools other than
11 public schools in this rate class or
12 designation might, basically, allow the
13 situation or the schools to get around this
14 statute or the statute wouldn't otherwise
15 apply. I don't know if it does apply. We'll
16 talk about it with counsel in a minute. And
17 I am going to ask you all to brief it, if you
18 would.

19 So does anyone else have any
20 questions of Mr. Wilhite?

21 ALL STAFF: No.

22 MR. SCHMITT: Thank you. You may
23 step down and be excused.

24 I would like to file the statute,
25 if possible, into the record. It is

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KRS 278.035.

(Exhibit 2 marked)

COMMISSION STAFF: Your Honor, we would now offer to call Mr. Seelye back to the witness stand to address the question by staff counsel.

MR. SCHMITT: Yes, please do. Mr. Seelye, you are still under oath. So you may take the stand and counsel may ask.

COMMISSION STAFF: Thank you.

RE-CROSS-EXAMINATION

BY COMMISSION STAFF:

Q Good afternoon, Mr. Seelye.

A Good morning.

Q Good morning. Hello. It has not been that long, has it?

A (Laughter).

Q I have two questions for you, as you've heard. With this 750,000 per entity, 1.5 million, was this revenue allocated to all other ratepayers?

A Yes.

Q And for the schools who are not in the pilot program but who are on the PS or the time of day rates, will they pay more because of the pilot program?

1 A They will see a larger increase to offset the
2 750,000 for each utility. So, and, it is not just
3 TODS. It is AES as well. So there would be three
4 rate schedules and probably others as well. They
5 probably have some small accounts on GS.

6 So, yes, all of those received a larger
7 increase to offset the \$750,000 per each utility.

8 Q Mr. Seelye, do you know how much of the \$750,000
9 was allocated to each class?

10 A No. It would probably be difficult to determine
11 because of how some of the percentage increases
12 were set for some of the classes. Therefore, any
13 of the -- I can say that it was spread across all
14 classes. But how it impacts each rate schedule
15 would be difficult because of some of the
16 assumptions that were made.

17 COMMISSION STAFF: We have no
18 further questions of Mr. Seelye.

19 MR. SCHMITT: Mr. Cicero?

20 MR. CICERO: No.

21 MR. SCHMITT: Mr. Logsdon?

22 MR. LOGSDON: No questions.

23 MR. SCHMITT: I have no questions.

24 Counsel for any of the intervenors?

25 INTERVENORS: (Moved head from side

1 to side).

2 MR. SCHMITT: Counsel, any
3 redirect?

4 COUNSEL: (Moved head from side to
5 side).

6 MR. SCHMITT: Thank you,
7 Mr. Seelye. You may step down and you are
8 excused.

9 Are there any more witnesses to be
10 called by any party or by staff?

11 COMMISSION STAFF: No more
12 witnesses by staff.

13 MR. SCHMITT: All right. Let's --
14 we ought to be able to finish this up in the
15 next 15 or 20 minutes. Why don't we take a
16 five minute recess, everybody can get
17 together. And then when we come back I would
18 like to ask counsel some questions about the
19 statute and how, ultimately, if we can get a
20 briefing schedule, you know, in ten days or
21 so, you know, to work on that.

22 APPLICANT STAFF: Sure.

23 MR. SCHMITT: So if we can take a
24 five minute break.

25 APPLICANT STAFF: Yes. If I could

1 leave you with three housekeeping items to
2 consider. Definitely a briefing schedule, we
3 would like to set that. Two, deadline for
4 submitting the data responses.

5 MR. SCHMITT: We'll take care of
6 that. We'll send written -- we'll deal with
7 that when we come back on the record.

8 APPLICANT STAFF: Okay. That's
9 fine.

10 MR. SCHMITT: All right.

11 APPLICANT STAFF: And then the last
12 point I would ask you to consider when we
13 come back on the record is the oath of
14 counsel.

15 MR. SCHMITT: We'll take care of
16 that.

17 APPLICANT STAFF: Thank you.

18 MR. SCHMITT: Then we have --
19 I guess Mr. Dutton has some motions, correct?

20 MR. DUTTON: I do. I have one,
21 Your Honor.

22 MR. SCHMITT: Okay. Why don't you
23 make yours now.

24 MR. DUTTON: Yeah. I apologize.
25 You asked for any pending motions yesterday,

1 and I missed that we have one that was filed
2 on April 3rd for a motion to deviate from the
3 filing requirements. We're going to end up
4 filing an extra seven, 8,000 pages worth of,
5 basically, just numbers. So that was our
6 motion.

7 MR. SCHMITT: Any objections?

8 COMMISSION STAFF: No objections.

9 APPLICANT STAFF: No objections.

10 MR. SCHMITT: Sustained.

11 MR. DUTTON: Thank you.

12 MR. SCHMITT: I didn't want you to
13 get lost in the shuffle.

14 MR. DUTTON: I appreciate that.

15 MR. SCHMITT: Okay. We will take a
16 recess and be back at 25 'til noon.

17 (11:23 a.m. BREAK 11:34 a.m.)

18 MR. SCHMITT: Please be seated.

19 Okay. We're back on the record. And now
20 that the testimony has been concluded we have
21 several, I guess, matters to take care of.

22 First, let's -- I would like to
23 speak to counsel about this 4.7 and 4.1
24 involving the pilot projects or pilot studies
25 involving Kentucky School Board Association

1 on behalf of its members, Kentucky public
2 schools.

3 And I'm going to ask -- everybody
4 signed the settlement agreement. But let me
5 ask Mr. Chandler:

6 Did the Kentucky Attorney General
7 approve the settlement?

8 MR. CHANDLER: Yes, sir.

9 MR. SCHMITT: Okay. KU has
10 approved it, correct?

11 MR. RIGGS: Yes, sir.

12 MR. SCHMITT: And the Kentucky
13 School Board Association, obviously, correct?

14 MR. MALONE: Yes, sir.

15 MR. SCHMITT: And there have been
16 no objections from any of the intervenors at
17 this point.

18 All right. So we have some concern
19 about this. One, that the settlement that
20 involves, basically, the two studies, which
21 in and of themselves as far as I'm concerned
22 are worthy projects, that they might be
23 violative of KRS 278.035. So what I would
24 like, or the Commission would like, for you
25 to do is to file a brief upon the question of

1 whether or not this settlement agreement as
2 drafted and the ultimate pilot study would be
3 violative, is or is not violative of
4 KRS 278.035.

5 And the second issue is, is
6 assuming that the studies would justify a
7 separate rate class for schools, okay,
8 whether that rate class should include
9 nonpublic schools and if it does -- if it
10 doesn't, whether or not a rate class which
11 did not -- which pertained only to Kentucky
12 public schools would be violative of 278.035,
13 all right?

14 APPLICANT STAFF: All right.

15 MR. SCHMITT: I would ask that
16 there -- if you could get these briefs done
17 in, say, ten days, that KU and LG&E file a
18 brief on that point, that Kentucky School
19 Board Association file a brief, the same time
20 period, and also the Kentucky Attorney
21 General's office.

22 Now, for other -- if there are
23 other intervenors who would like to file a
24 brief, I think that ought to be optional.
25 But whether you file a brief or not, counsel

1 should consult with your clients and let us
2 know in writing, let the Commission know,
3 file something in writing as to whether if
4 this settlement were somehow altered to the
5 extent that it included nonpublic schools,
6 whether you would object, your clients would
7 object to the settlement on that basis.

8 MR. CHANDLER: Could I clarify?

9 MR. SCHMITT: Yes.

10 MR. CHANDLER: If you all altered
11 the settlement to include private schools --

12 MR. SCHMITT: Well, I'll going to
13 ask KU about that first, because I don't want
14 to -- we don't intend to make a new agreement
15 for the parties. But I would ask -- I'm
16 going to ask KU in a minute what its position
17 would be if, if it were determined, we don't
18 have to answer that question now --

19 APPLICANT STAFF: Right.

20 MR. SCHMITT: -- but if it is
21 determined that either the pilot program or
22 if the pilot program were approved if a
23 subsequent rate change applicable only to
24 public schools would violate the statute,
25 then we would be concerned about it and there

1 is no point in getting involved in it because
2 we will end up in litigation with a bunch of
3 other people who say we ought to have that
4 same -- the benefit of that same rate class.
5 So we won't answer that question now. We'll
6 wait to see what your briefs say.

7 MR. DUTTON: Can I ask a clarifying
8 question, Your Honor?

9 MR. SCHMITT: Yes.

10 MR. DUTTON: 4.7, the way that we
11 read that and I believe the way that it was
12 designed was to apply as well to city parks
13 and to city-owned sports fields.

14 My understanding is, is the
15 Commission's concern is applicable just to
16 school boards. So there wouldn't necessarily
17 -- I guess I'm trying to figure out if you
18 have concerns with 4.7's applicability to
19 cities as well.

20 MR. SCHMITT: I think you ought to
21 brief that issue. I mean, you could do it on
22 behalf of Metro, right, Louisville Metro and
23 Mr. Gardner on behalf of Lexington-Fayette.
24 I suppose it could if, if the statute says,
25 "Any entity receiving public funds from the

1 Commonwealth of Kentucky." It may not apply.
2 That's up to you to decide. "Or any
3 political subdivision for the purpose of
4 offsetting at least 50 percent." It seems to
5 me it might not apply to you at all, not
6 apply to your clients. But I think you have
7 to make that decision. And if you would say
8 we don't believe it does, why don't you file
9 something with us and take that position on
10 the record so we know. And Mr. Gardner
11 might, if he chooses to do so, do that on
12 behalf of Lexington-Fayette County Urban
13 County Government.

14 MR. DUTTON: I appreciate that.
15 Thank you, Your Honor.

16 MR. SCHMITT: Okay. All right.
17 Mr. Riggs, if -- if -- and you might want to
18 -- you don't have to answer this today and
19 neither does your client.

20 But at some point, if the question
21 gets down to whether or not if one or more
22 nonpublic schools were included in this pilot
23 program or if, assuming that a study showed
24 that schools had a -- were entitled to or
25 should have their own rate class, if that

1 were expanded to all schools and not just
2 public schools, KU and LG&E ought to tell us
3 whether or not they would object to that or
4 embrace those other districts. Because if
5 you wouldn't, there is not any point in going
6 forward with that.

7 MR. RIGGS: We'll answer that in
8 our brief when we file that, if that's all
9 right, Your Honor.

10 MR. SCHMITT: All right. With
11 that, before we get to the colloquy here in
12 the settlement, are there any other motions?
13 Mr. Dutton has made his. Are there any other
14 motions by counsel or staff?

15 MR. FITZGERALD: (Indicating).

16 MR. SCHMITT: Yes, Mr. FitzGerald.

17 MR. FITZPATRICK: Thank you,
18 Mr. Chairman. I just had a question for
19 clarification purposes.

20 Would the post-hearing briefs be
21 limited just to the issue that you raised?

22 MR. SCHMITT: No, no. We're going
23 to do that in a second. We will talk to
24 that.

25 MR. FITZPATRICK: Okay. Thank you.

1 MR. SCHMITT: No, they will not be
2 limited. We'll have another brief that can
3 address other issues.

4 MR. FITZPATRICK: That was going to
5 be my question. Thank you, Mr. Chairman.

6 MS. ROBERTS: Mr. Chairman?

7 MR. SCHMITT: Yes.

8 MS. ROBERTS: Casey Roberts from
9 the Sierra Club. I just wanted to offer into
10 evidence a copy of what Sierra Club called
11 Exhibit 1 that does have the Commission's
12 stamp on it.

13 MR. SCHMITT: Sustained.
14 Thank you.

15 Yeah, we'll -- the court reporter
16 can accept that in exchange for the one that
17 was filed yesterday. So we will just take
18 the other one out and include that. They
19 are, obviously, the same.

20 MR. RIGGS: No concern or
21 objection.

22 MR. SCHMITT: Okay. So if we --
23 let's talk about post-hearing data requests.

24 Staff, how much time would you need
25 to prepare in writing all of the post-hearing

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data requests that you would want?

COMMISSION STAFF: We can have it issued by Friday.

MR. SCHMITT: Okay. And for KU and LG&E, how much time do you think you would reasonably need? If you get the data request by the 12th, can you answer them by Monday, the 22nd?

MR. RIGGS: We probably need until the 26th. We will --

MR. SCHMITT: Until the 26th?

MR. RIGGS: Yes.

MR. SCHMITT: That's fine.

MR. RIGGS: Your honor, if we can get them to you sooner, then we will.

MR. SCHMITT: Okay. You can have until the 26th because you have got a lot to do.

Now, I expect there may be -- will there be any post-hearing data requests of KICU? There may be of Kentucky School Board. So if the Kentucky School Board Association is furnished with a data request by the end of the day on Friday, how much time, Mr. Malone, would you need? You would only

1 get two, three, or four, probably.

2 MR. MALONE: I think we could
3 probably turn it around in a week.

4 MR. SCHMITT: Well, why don't we
5 give you the same amount of time that KU and
6 LG&E gets, the 26th.

7 MR. MALONE: That's fine.

8 MR. SCHMITT: Just give everybody
9 the same amount of time.

10 All right. So Staff will have the
11 post-hearing data requests filed by the end
12 of the day on May 12th. And the parties who
13 will receive those post-hearing data requests
14 will have until the end of the day on
15 May 26th.

16 Now, on the briefs, let's talk
17 about the briefs on KRS 278.035. How much
18 time, Counsel, and you may need a minute to
19 talk among yourselves, how much time would
20 you think you would need to file a brief?

21 MR. RIGGS: Your Honor, may I ask a
22 clarifying question?

23 MR. SCHMITT: Yes.

24 MR. RIGGS: You want one brief on
25 all of the issues or do you want separate

1 briefs?

2 MR. SCHMITT: I want separate
3 briefs on just this issue. And then we'll
4 talk about the other brief.

5 MR. RIGGS: Sure.

6 MR. SCHMITT: And you may need more
7 time. Or if you would say, I would like to
8 have until the 26th to file briefs, this
9 brief, the other brief that you may want to
10 file, we could do that too.

11 MR. RIGGS: Okay. Well, my
12 broader -- I think that we can get your brief
13 from the utilities perspective on the statute
14 finished more quickly because of the very
15 precise questions that you have asked.

16 MR. SCHMITT: Sure.

17 MR. RIGGS: We will need more time
18 to prepare our brief on the other issues.

19 MR. SCHMITT: On the other issues,
20 well, fine.

21 Well, then let's go -- let's talk
22 to the other issues first. How much time do
23 you think you would need to file a brief on
24 all of the other issues that have been raised
25 in this proceeding?

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MR. RIGGS: May 31st.

MR. SCHMITT: May 31st. All right.
Granted.

Any other party to this proceeding that would like to file a brief on any issue in the case other than whether or not the Kentucky School Board's 4.7 and 4.11 violate -- whether they do violate 278.035, will have until May 31st to file their briefs simultaneously, okay?

Then once those briefs are filed on the 31st, I think you ought to -- if there are any responsive briefs to be filed, file them by June 9th.

MR. RIGGS: Your Honor, we don't perceive a need to file any responsive briefs.

MR. CHANDLER: We don't, either.

MR. SCHMITT: Nobody does. Well, that's good. Well, that briefing is finished on the 31st. Now, what about time to file the briefs on whether or not a portion of the settlement agreement may violate 278.035? How much time?

MR. RIGGS: We need less time. I

1 would like to have a few days after the
2 School Board files its data responses to be
3 able to consider that as part of our brief,
4 that we would file on that. So we could file
5 that two to three days after the School Board
6 files its data responses. Or we could just
7 file both briefs.

8 MR. SCHMITT: Well, I can tell you
9 right now, the only data responses the School
10 Board might have would be a request as to
11 whether or not they would be willing to reach
12 out to other school districts -- to nonpublic
13 school districts as a part of the pilot
14 project and what their position would be if
15 nonpublic school districts were included in
16 the rate class. So I don't believe you need
17 any more time. That is all.

18 MR. RIGGS: Fair enough.

19 MR. SCHMITT: Okay.

20 MR. RIGGS: So we can submit our
21 brief as early as May 26th.

22 MR. SCHMITT: Okay. Can you get
23 your brief done by then?

24 MR. CHANDLER: The Attorney General
25 has a different kind of operation to go

1 through with regards to the statutes. We
2 have a civil division that has been charged
3 statutorily regarding -- whenever any
4 conflict of statutes is involved, we need to
5 consult with them and perhaps other divisions
6 in upper management. For that purpose, I
7 believe it probably would take longer for us
8 to do the statute brief than it would the
9 other brief.

10 MR. SCHMITT: All right. Okay. So
11 how much time would you need on the statute?

12 MR. CHANDLER: I am thinking
13 June 2nd for the statute brief.

14 MR. SCHMITT: That's not
15 unreasonable. I think that's fine. If you
16 need June 2nd, that's okay. What about your
17 other brief?

18 MR. CHANDLER: The 31st, I think we
19 can.

20 MR. SCHMITT: All right. Do any
21 other parties have any briefing issues?
22 Mr. Malone, you are okay?

23 MR. MALONE: No, Mr. Chairman.

24 MR. SCHMITT: You can file by
25 the -- if you want, you could file yours by

1 June 2nd, too, if you would like. That would
2 give you all and Mr. Riggs, everybody on the
3 same date.

4 MR. RIGGS: Concurrent briefing,
5 yes, sir.

6 MR. SCHMITT: However you would
7 like to do it, okay?

8 MR. DUTTON: Mr. Chairman, that is
9 for everybody on the statute brief?

10 MR. SCHMITT: Everybody on the
11 statute brief gets until June the 2nd.

12 MR. CHANDLER: Your Honor, could I
13 have one clarification?

14 MR. SCHMITT: Yes.

15 MR. CHANDLER: The statute brief is
16 mandatory for the Attorney General, the
17 companies, and the School Board. It is
18 optional for everybody else?

19 MR. SCHMITT: It is not mandatory
20 for any other party.

21 MR. CHANDLER: Okay. Good.

22 MR. SCHMITT: If any other party
23 would like to file a brief, that's fine. I
24 would like -- we would like the other parties
25 to let us know if it is determined, if it is

1 determined, that the settlement agreement as
2 drafted would be violative of the statute
3 which prohibits, basically, a preference for
4 public-related entities, okay, if any
5 participant, anyone who agreed to the
6 settlement with this in it, if you would
7 object or withdraw your agreement to the
8 settlement if nonpublic schools were included
9 in the pilot study and ultimately if
10 determined that schools should have a
11 separate rate class, if anyone would object
12 to that. And all you have to do is tell us,
13 contact your client and you can send
14 something in and let us know. Because some
15 people may say, no, for whatever reason I
16 wouldn't -- I'm against that. We would just
17 like to know it.

18 MR. KURTZ: I will let you know,
19 KICU would not object. This would not affect
20 our settlement position. But we'll send that
21 in writing as well.

22 MR. SCHMITT: If you would. Thank
23 you, sir.

24 COMMISSION STAFF: Mr. Chairman?

25 MR. SCHMITT: Yes.

1 COMMISSION STAFF: When should that
2 statement be filed, the statement --

3 MR. SCHMITT: Well, if they could
4 file the statements by the time the other
5 parties' briefs are due on that issue, by
6 June 2nd.

7 COMMISSION STAFF: June 2nd, okay.

8 MR. SCHMITT: The other parties
9 could file whether or not they would object
10 to the settlement or withdraw from it if
11 nonpublic schools are included.

12 Okay. At this time, I guess if the
13 parties and their counsel would come forward
14 and then we will go through the settlement
15 colloquy. But there are so many people in
16 this case, so you have to forgive my
17 inability to recognize everybody. I would
18 like maybe the 13, 14, 15 parties, each party
19 to on the microphone say the name of the
20 party, the people who are here with you who
21 are going to take the oath, and the counsel,
22 so that we can get that on the record.
23 Otherwise, we'll have to look at the video
24 and try to figure out who said what, okay?

25 MR. RIGGS: Sure.

1 MR. SCHMITT: All right. So we can
2 begin with Kentucky Utilities and Louisville
3 Gas and Electric. And then if the others
4 would just come up in order. And maybe,
5 Ms. Hughes, if you can keep count and make
6 sure we get everybody on the record, okay?

7 MR. RIGGS: So, Your Honor, I
8 apologize for asking so many questions.

9 You're just wanting the
10 representatives of KU and LG&E that are going
11 to take that oath?

12 MR. SCHMITT: Yes, yes.

13 MR. RIGGS: We need to identify
14 them at this time?

15 MR. SCHMITT: Yes. I would like
16 them identified so we know who they are for
17 the record. And if someone -- I'm sure no
18 one would ever say that wasn't me or I didn't
19 do it. We would like to have a record.
20 Otherwise, there is no point in doing it in
21 the first place.

22 MR. RIGGS: So for Louisville Gas
23 and Electric Company and Kentucky Utilities
24 Company, Kendrick Riggs and Duncan Crosby,
25 Stoll Keenon Ogden, Ms. Allyson Sturgeon,

1 senior corporate counsel for LG&E and KU,
2 Mr. Kent Blake, chief financial officer for
3 LG&E and KU, and Robert Conroy, vice
4 president of regulation for LG&E and KU, and
5 Mr. John Wolfe, vice president of
6 distribution operations for LG&E and KU.

7 MR. SCHMITT: Mr. Malone.

8 MR. MALONE: Thank you,
9 Mr. Chairman. Matt Malone from the law firm
10 of Hurt, Deckard & May in Lexington on behalf
11 of the Kentucky School Board Association.
12 And I have with me Mr. Ron Wilhite on behalf
13 of the Kentucky School Board Association.

14 MR. SCHMITT: We'll swear
15 Mr. Wilhite in again.

16 MR. CHANDLER: Mr. Chairman, on
17 behalf of the Kentucky Attorney General's
18 Office, Kent Chandler and Larry Cook.

19 MR. KURTZ: For KICU, Mike Kurtz,
20 Jody Cohn.

21 MR. SCHMITT: Okay. I don't know
22 who wants to step forward. Mr. Childers, you
23 jumped up here the last time.

24 MR. CHILDERS: Thank you,
25 Your Honor. On behalf of the individual

1 intervenors and Sierra Club, Joe Childers,
2 Casey Roberts, and Matthew Miller.

3 MR. SCHMITT: Okay.

4 MR. HOWARD: Mr. Chairman and
5 Commissioners, Dennis Howard with Howard Law
6 on behalf of JBS Swift & Company. I will
7 also be taking it on behalf of Eric Wallin,
8 who is general plant manager.

9 MR. SCHMITT: All right.

10 MS. KILKELLY: On behalf of the
11 Association of Community Ministries, Lisa
12 Kilkelly of the Legal Aid Society. I'm here
13 today. Our witness, Marla Cummins [ph], is
14 not here today.

15 MS. SKIDMORE: Mr. Chairman,
16 Iris Skidmore on behalf of the Community
17 Action Council for Lexington-Fayette,
18 Bourbon, Harrison, and Nicholas Counties.
19 And I represent Malcolm Ratchford, who is our
20 executive director. He is not here, but I
21 have his permission.

22 MR. SCHMITT: Thank you.

23 MR. GARDNER: Mr. Chairman and
24 Commissioners, Jim Gardner and Todd Osterloh,
25 Sturgill, Turner, Barker & Maloney, on behalf

1 of Lexington-Fayette Urban County Government.

2 MR. SCHMITT: Thank you. Has
3 Lexington-Fayette Urban County Government
4 approved the settlement?

5 MR. GARDNER: Yes, sir. And we
6 have filed in the record --

7 MR. SCHMITT: It has been filed,
8 okay.

9 MR. GARDNER: -- certified
10 approval.

11 MR. DUTTON: Good morning. Greg
12 Dutton of Goldberg Simpson. And I represent
13 the Kentucky League of Cities. I also
14 represent the City of Louisville. And from
15 the City of Louisville I have with me today
16 Jeff Durbin.

17 MR. SCHMITT: Okay. And has the
18 City of Louisville formally approved --

19 MR. DUTTON: They have.

20 THE COURT: Thank you.

21 MR. NAUM: Good morning,
22 Mr. Chairman and Commissioners. Barry Naum
23 from Spilman Thompson & Battle on behalf of
24 Wal-Mart Stores East, LP and Sam's East, Inc.

25 MS. WINN: Good morning,

1 Mr. Chairman and Commissioners. Cheryl Winn
2 at Waters Law Group on behalf of AT&T
3 Kentucky. I have with me Tony Taylor, who is
4 the director of regulatory for AT&T Kentucky,
5 and Patrick Turner, who is in-house counsel
6 for AT&T Kentucky.

7 MS. MEDLYN: Mr. Chairman and
8 Commissioners, on behalf of the United States
9 Department of Defense and all other federal
10 executive agencies, Emily Medlyn and Houston
11 Parrish.

12 MR. MOORE: Good morning,
13 Mr. Chairman and Commissioners. I'm Robert
14 Moore with Stites & Harbison, PLLC on behalf
15 of the Kroger Company.

16 MR. ZIELKE: Mr. Chairman, I am
17 Larry Zielke on behalf of the Kentucky Cable
18 Health Communications Commission. And I
19 would like to submit, with me is the
20 executive director of the KCTA, Randy Hollis.
21 And if you remember, Mr. Chairman, I
22 presented an affidavit --

23 MR. SCHMITT: I do.

24 MR. ZIELKE: -- in the beginning.
25 And to make sure that is of record, because

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that is of Paul Horner, who negotiated the settlement.

MR. SCHMITT: I assume that is of record. It is filed, correct, ma'am?

MS. HUGHES: Yes, it is.

MR. ZIEKLE: Thank you, Mr. Chairman.

MR. FITZGERALD: Last and certainly least, Tom FitzGerald representing the Metropolitan Housing Coalition, which has approved the settlement.

MR. SCHMITT: Mr. FitzGerald, you didn't speak up on the briefing schedule. Is that satisfactory to you?

MR. FITZGERALD: It is excellent, sir.

MR. SCHMITT: Okay. Thank you.

MR. FITZGERALD: Thank you.

MR. SCHMITT: All right. Let's stand and raise your right hands.

MR. RIGGS: I apologize. I need to make an errata to my statement. I would add Ms. Sarah Veeneman, corporate counsel for LG&E and KU.

MR. SCHMITT: Okay. Anybody taking

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the oath here needs to stand.

(All staff comply)

MR. SCHMITT: Okay. Do you swear or affirm that the representations you are about to give are true and accurate to the best of your knowledge and belief?

ALL STAFF: We do.

MR. SCHMITT: Are you aware of and did you have an opportunity to participate in all of the negotiations that resulted in the settlement agreement?

ALL STAFF: Yes.

MR. SCHMITT: Did you voluntarily sign or authorize the execution of the settlement agreement and do you fully support each and every provision contained therein?

ALL STAFF: Yes.

MR. SCHMITT: Are there any provisions in the settlement agreement that you do not understand, object to, or take issue with?

ALL STAFF: No.

MR. SCHMITT: Was any consideration of any kind offered or were any promises made other than what is expressed and set forth in

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the settlement agreement to induce you to negotiate and sign the settlement agreement?

ALL STAFF: No.

MR. SCHMITT: Are you aware of any reason why the Commission should not adopt and approve the settlement agreement in its entirety?

ALL STAFF: No.

MR. SCHMITT: Thank you. You may be seated.

(Staff comply)

MR. SCHMITT: Is there any other matter that counsel for any of the parties would like to bring before the Commission at this time before we adjourn? Staff, do you have anything?

COMMISSION STAFF: No. Nothing further.

MR. SCHMITT: All right. With that being said, this case is hereby -- the hearing is hereby adjourned.

(Proceedings concluded at 11:58 a.m.)

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REPORTER'S CERTIFICATE

STATE OF KENTUCKY)
COUNTY OF FAYETTE)

I, LISA M. SCHWARZE (LARSON), FCRR, RPR, and Notary Public in and for the Commonwealth of Kentucky at Large, do hereby certify that the facts as stated by me in the caption hereto are true; that the foregoing answers in response to the questions as indicated were made before me by the witnesses hereinbefore named, after said witness had first been duly placed under oath, and were thereafter reduced to computer-aided transcription by me and under my supervision; and that the same is a true and accurate transcript of the proceedings to the best of my ability.

I further certify that I am not employed by, related to, nor of counsel for any of the parties herein, nor otherwise interested in the outcome of this action.

IN WITNESS WHEREOF, I have affixed my signature and seal this 12th of May, 2017.

LISA M. SCHWARZE (LARSON), FCRR, RPR
Notary Public, State-at-Large
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My Commission Expires: June 13, 2017

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