

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF LOUISVILLE)	
GAS AND ELECTRIC COMPANY FOR RENEWAL)	CASE NO.
AND PROPOSED MODIFICATION OF ITS)	2019-00437
PERFORMANCE-BASED RATEMAKING)	
MECHANISM)	

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION
TO LOUISVILLE GAS AND ELECTRIC COMPANY

Louisville Gas and Electric Company (LG&E), pursuant to 807 KAR 5:001, is to file with the Commission the original in paper medium and an electronic version of the following information. The information requested herein is due on or before February 21, 2020. Responses to requests for information in paper medium shall be appropriately bound, tabbed, and indexed. Electronic documents shall be in portable document format (PDF), shall be searchable, and shall be appropriately bookmarked.

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

LG&E shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when

made, is now incorrect in any material respect. For any request to which LG&E fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

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

1. Refer to the Direct Testimony of J. Clay Murphy (Murphy Testimony), page 3, in which he states he has previously testified in LG&E's gas supply cost Performance-Based Ratemaking (PBR) mechanism applications dating back to 1997.

a. Explain the concerns for the cost of natural gas and reliability of supply that existed in the late 1990s.

b. Explain whether the concerns for the cost of natural gas and reliability of supply that existed in the late 1990s still exist in the present day.

c. Compare and contrast the cost and volatility of natural gas as well as the reliability of supply from the late 1990s throughout the present time.

d. Explain in full detail whether LG&E believes a PBR mechanism is still necessary in the current low-cost natural gas environment.

2. Refer to the Murphy Testimony, page 4, in which Mr. Murphy states that LG&E is proposing to alter the sharing percentages and threshold to make them consistent with those found in other Kentucky gas supply cost PBR mechanisms. Provide a list of the other Kentucky gas utilities that have a PBR mechanism, and compare and contrast LG&E's current and proposed mechanism to the other gas utilities' PBR mechanisms.

3. Refer to the application generally, and state whether any LG&E affiliate local distribution company (LDC) now operates, or has ever operated, under a gas procurement PBR mechanism. If so, provide details of the mechanism.

4. Refer to the application, LG&E's Report to the Kentucky Public Service Commission on Gas Supply Cost Performance-Based Ratemaking Mechanism (Report), pages 1–2. Explain whether LG&E is encouraged to optimize its gas supply portfolio absent a PBR mechanism. If not, explain why not.

5. Refer to LG&E's Report, page 2, the first full sentence.

a. Provide examples and explain in detail the “new, non-traditional sectors” mentioned by LG&E that are changing the marketplace for natural gas and pipeline services.

b. Explain how these examples are affecting the natural gas procurement methods of LG&E.

6. Refer to the Report, page 3. Explain in full detail how LG&E's gas supply cost PBR mechanism encourages LG&E to enhance its position as an energy provider.

7. Refer to the Report, page 4.

a. Explain whether the identified risks that LG&E undertakes would exist absent its PBR mechanism.

b. Identify and describe “expenses that might result under the mechanism.”

c. Since LG&E’s PBR mechanism was established, provide the percentage of total gas sales for which LG&E’s purchase price was above the benchmark for that purchase.

8. Refer to the Report, page 5.

a. Explain whether LG&E’s PBR mechanism has ever resulted in shared expenses.

b. Explain why the “least cost acquisition” standard in purchasing natural gas supplies and pipeline transportation services does not exist absent LG&E’s PBR mechanism.

9. Refer to the Report, page 6. Explain in full detail how “LG&E’s PBR mechanism does not provide incentives that could encourage it to take risks that reduce reliability in order to achieve lower costs.”

10. Refer to the Report, page 7, paragraph 2.

a. Provide whether LG&E would diminish its efforts to maintain service reliability for the benefit of its customers if LG&E’s PBR mechanism were discontinued.

b. Explain whether LG&E seeks to purchase the lowest cost natural gas to provide to its customers regardless of whether it has a PBR mechanism or not.

11. Refer to the Report, pages 9–10, and LG&E’s January 2, 2018, December 28, 2018, and December 27, 2019 Performance-Based Ratemaking Mechanism Reports, Section PBR-TIF.¹

- a. Explain why the monthly savings are not volumetric in nature.
- b. Explain whether LG&E could be required to pay rates above the

FERC-approved tariff rates.

12. Refer to the Report, page 10.

- a. Explain whether LG&E evaluates the cost-effectiveness of negotiating discounts from firm transportation rates over the life of the contract or a shorter period.

- b. Explain how taking advantage of shorter-term capacity release opportunities is reflected in LG&E’s PBR mechanism.

13. Refer to the Report, page 11. State whether LG&E has ever incurred out-of-pocket costs for off-system sales of natural gas that exceeded the benchmark.

14. Refer to the Report, page 12, in which LG&E asserts that its PBR mechanism is generally flexible enough to allow it to respond appropriately. Also, refer to the Report, page 15, paragraph 2, in which LG&E requests that the Commission authorize the requested extension and modification of its PBR mechanism no later than June 1, 2020, because it needs four months to adjust its gas supply portfolio and supply strategies.

¹ Case No. 2014-00476, *Louisville Gas and Electric Company’s Proposed Renewal and Modification of Its Performance-Based Ratemaking Mechanism* (Ky. PSC June 30, 2015).

a. Reconcile these two statements of flexibility to allow LG&E to respond appropriately versus the need for four months' notice to adjust gas supply portfolios and strategies.

b. Explain how the PBR modifications proposed by LG&E would require four months to adjust its gas supply portfolio and supply strategies should it be approved by the Commission.

15. Refer to the Report, page 14, and the Report, Appendix A. For the period of November 1, 2015, through October 31, 2019, provide the savings portions using LG&E's proposed ratios and threshold in this case.

16. Refer to LG&E's responses to Commission Staff's (Staff) requests for information regarding LG&E's gas procurement methodology (Staff's gas procurement methodology request) included in its Gas Cost Adjustment (GCA) report in Case No. 2018-00302.² Provide all updates available to the natural gas procurement practices of LG&E as requested below.

a. Provide copies of all interstate pipeline transportation and storage contracts and tariffs utilized during the most recent year. Further, provide a comparison of the terms of these transportation arrangements with those that have been utilized since Staff's gas procurement methodology request. Explain all efforts to ensure that interstate pipeline transportation costs were and remain at the lowest possible cost.

b. Provide all updated copies of all current contracts for commodity supply, updated to reflect any changes made subsequent to Staff's request regarding gas

² LG&E's responses to Commission Staff's requests for information in Case No. 2018-00302, *Electronic Purchased Gas Adjustment Filing of Louisville Gas And Electric Company* (filed Sept. 28, 2018 and redacted versions filed October 2, 2018).

procurement methodology. Provide a comparison of the terms of these commodity supply arrangements with those that were utilized during the five previous calendar years. Provide an explanation of all efforts to ensure that commodity gas supply costs were and remain at the lowest possible cost, consistent with security of supply.

c. Provide updated gas supply and capacity contract summaries showing significant contract terms; daily, monthly, and annual entitlements; and pricing. Identify any capacity changes (renegotiated and expired agreements, contract cancellations, assignments, or long-term releases) since Staff's gas procurement methodology request.

d. Provide an update of LG&E's storage arrangements, and state the maximum daily injection and withdrawal rates and the decline in deliverability that occurs as gas is withdrawn, updated to reflect any changes occurring subsequent to Staff's request regarding gas procurement methodology.

e. Provide an update of the capacity of all peaking arrangements made since Staff's gas procurement methodology request.

f. Provide an updated copy of all written procedures in use by LG&E for nominations and dispatching since Staff's gas procurement methodology request.

g. If LG&E has utilized gas marketing/trading organizations to obtain gas supplies subsequent to Staff's gas procurement methodology request, indicate which organizations were employed, gas volumes purchased, prices, terms, and current contractual arrangements between LG&E and these marketing firms.

h. Provide a summary of the Request for Proposal or bidding process for gas supply since Staff's gas procurement methodology request that provides the

original bid documents, a listing of the suppliers that were contacted, the responses to the request for bid, the evaluation process that led to the selection of a supplier, and any written procedures that exist for this activity.

i. Provide an updated copy of LG&E's most recent gas supply plan and a written description of its gas supply planning process since Staff's gas procurement methodology request.

j. Provide an updated narrative description of any supply-planning computer models currently being used by LG&E, or being considered for future use, since Staff's gas procurement methodology request.

k. Provide updated organization charts of the overall corporate organization and of the gas planning, gas purchasing, and gas operations functions subsequent to Staff's gas procurement methodology request. Describe any changes that have occurred in the corporate, gas planning and purchasing, and gas operations organizations since Staff's gas procurement methodology request, and describe any changes that are underway or contemplated within the next five years.

l. Provide job descriptions of the personnel working in the gas planning, gas purchasing, and gas operating functions.

m. Provide updated copies of reports or internal audits or reviews of any aspect of the supply function conducted since Staff's gas procurement methodology request. Include reports prepared by LG&E and outside auditors.

n. Provide an updated copy of LG&E's strategic plan with primary emphasis on gas procurement, transmission, delivery, and expansion, including all

significant related capital expenditures since Staff's gas procurement methodology request.

17. Provide the administrative costs and any additional costs associated with the PBR mechanism that is incurred by LG&E on a yearly basis.

18. Provide a detailed list of any other states that have approved natural gas procurement PBR mechanisms. Further, explain how LG&E's PBR mechanism compares to active mechanisms in the other states. For any discontinued mechanisms, provide all available details regarding their discontinuance.

19. Provide a cost-benefit analysis of the costs associated with LG&E's negotiation of the discounted rate and the savings created from the PBR mechanism for ratepayers.

20. Provide the costs incurred to achieve savings under LG&E's PBR, and explain how those costs are recovered (i.e., through the GCA, netted against savings in the PBR, etc.).

21. Explain what costs LG&E provides to the Energy Information Administration (EIA), and at what intervals LG&E provides information to EIA.



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DATED **FEB 06 2020**

cc: Parties of Record

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