

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matters of:

ELECTRONIC APPLICATION OF KENTUCKY)
UTILITIES COMPANY FOR AN ADJUSTMENT)
OF ITS ELECTRIC RATES, A CERTIFICATE)
OF PUBLIC CONVENIENCE AND NECESSITY) CASE NO.
TO DEPLOY ADVANCED METERING) 2020-00349
INFRASTRUCTURE, APPROVAL OF)
CERTAIN REGULATORY AND ACCOUNTING)
TREATMENTS, AND ESTABLISHMENT OF A)
ONE-YEAR SURCREDIT)

ELECTRONIC APPLICATION OF LOUISVILLE)
GAS AND ELECTRIC COMPANY FOR AN)
ADJUSTMENT OF ITS ELECTRIC AND GAS)
RATES, A CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY TO) CASE NO.
DEPLOY ADVANCED METERING) 2020-00350
INFRASTRUCTURE, APPROVAL OF)
CERTAIN REGULATORY AND ACCOUNTING)
TREATMENTS, AND ESTABLISHMENT OF A)
ONE-YEAR SURCREDIT)

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION
TO THE UNITED STATES DEPARTMENT OF DEFENSE AND
ALL OTHER FEDERAL EXECUTIVE AGENCIES

The Department of Defense and all other Federal Executive Agencies (DOD/FEA), pursuant to 807 KAR 5:001, is to file with the Commission an electronic version of the following information. The information requested herein is due on April 1, 2021. The Commission directs the DOD/FEA to the Commission's March 16, 2020 and March 24,

2020 Orders in Case No. 2020-00085¹ regarding filings with the Commission. The Commission expects the original documents to be filed with the Commission within 30 days of the lifting of the current state of emergency. All responses 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.

DOD/FEA shall make timely amendment to any prior response if DOD/FEA obtains information that indicates the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which DOD/FEA fails or refuses to furnish all or part of the requested information, DOD/FEA 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 these proceedings in the requested format, reference may be made to the specific location of that information in

¹ Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 16, 2020), Order at 5–6. Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 24, 2020), Order at 1–3.

responding to this request. When filing a paper containing personal information, DOD/FEA 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 Christopher C. Walters (Walters Testimony). Provide all workpapers and Excel spreadsheets formatted with all formulas, columns, and rows unprotected and fully accessible.

2. Refer to the Walters Testimony generally. There have been recent ROE awards to electric utilities with transmission and distribution assets only that have been below 9.0 percent.

a. Everything else being equal, explain generally whether wires only utilities are less risky than vertically integrated electric utilities that own and operate generation facilities? If so, explain the risk factors associated with the ownership and operation of generation facilities that enhances the utilities' risk.

b. Provide a detailed explanation of how each of the risk factors enumerated above relate specifically to Kentucky Utilities Company (KU) and Louisville Gas and Electric Company (LG&E) (jointly KU/LG&E). Include in the response an explanation of how the well-established rate recovery mechanisms and regulatory processes fail to alleviate any additional risk such that a higher awarded ROE is warranted.

3. Refer to the Walters Testimony, page 26, lines 6–7, and page 69, line 3. Explain the reasoning for excluding Algonquin Power from the proxy group.

4. Refer to the Walters Testimony, page 29, lines 13–16. Explain why dividend growth rates were not used and whether the use of dividend growth rates should at least also be included in the analysis in addition to earnings per share growth rates.

5. Refer to the Walters Testimony, page 29, lines 20–21. Explain the reason for not including growth rate projections obtained from Value Line.

6. Refer to the Walters Testimony, page 31, lines 6–8, page 32, lines 12–14, and page 34, lines 19–20. Explain why the growth rate used in the sustainable DCF model is higher than the estimated, long-term GDP growth rate when it was argued that the growth rate for a utility cannot exceed the growth rate of the economy indefinitely.

7. Refer to the Walters Testimony, page 34, lines 6–10. Explain the reasoning for the chosen growth periods.

8. Refer to the Walters Testimony, page 40, lines 12–13. Explain why a linear downtrend was chosen for the second stage, years 6-10.

9. Refer to the Walters Testimony, page 48, line 18, Other than Blue Chip. Explain if any other 30-year Treasury bond forecasts were considered.

10. Refer to the Walters Testimony, page 49, lines 16–18. Provide a more detailed explanation of why for companies with betas less than 1.0, using the Treasury bond yield as a proxy for the risk-free rate in the CAPM analysis, can produce an overstated estimate of the CAPM return.

11. Refer to the Walters Testimony, page 50, lines 1–9, and page 65, lines 15–21. Explain, compare, and contrast the methodologies used by Value Line and Market Intelligence’s Beta Generator model to calculate Beta values. Include in the explanation

a discussion of the reasons for adjusting the Beta values, and the Vasicek, modified Vasicek, and Blume adjustment methods.

12. Refer to the Walters Testimony, page 51, lines 2–3. In Mr. Walters’ previous ROE modeling analyses, he used broader measures of inflation. Explain why the consumer price index is an appropriate measure of inflation in this particular context as opposed to a broader inflation measure.

13. Refer to the Walters Testimony, Table 11, page 58. Given the range of CAPM ROE estimates, explain how a recommendation of 9.6 percent was derived.

14. Refer to the Walters Testimony, Exhibit CCW-7, page 1. Explain the purpose of the “Adjustment Factor” used in the sustainable growth rate model.

15. Refer to the Direct Testimony of Michael P. Gorman (Gorman Testimony), page 39, Table 10, and page 40, Table 11. Provide a similar analysis for the 6CP monthly peak months. Provide this in Excel spreadsheet format with all with all formulas, columns, and rows unprotected and fully accessible.

16. Refer to the Gorman Testimony, page 42, Table 12, and page 43, Table 13.

a. Provide all support documentation related to the calculations used in the table. Provide this in Excel spreadsheet format with all with all formulas, columns, and rows unprotected and fully accessible.

b. Provide Tables 12 and 13 in Excel spreadsheet format with all with all formulas, columns, and rows unprotected and fully accessible.

17. Refer to the Gorman Testimony, page 47. Provide the rates for all customer classes that would result from the proposed allocations in Table 16, assuming that the

entire amount of LG&E's proposed electric rate increase were approved by the Commission. Provide this in Excel spreadsheet format with all with all formulas, columns, and rows unprotected and fully accessible.

18. Refer to the Gorman Testimony, page 48. Provide the rates for all customer classes that would result from the proposed allocations in Table 17 assuming that the entire amount of KU's proposed electric rate increase were approved by the Commission. Provide this in Excel spreadsheet format with all with all formulas, columns, and rows unprotected and fully accessible.

19. Refer to the Gorman Testimony, Exhibits MPG-3 and MPG-4.

a. Provide this in Excel spreadsheet format with all with all formulas, columns, and rows unprotected and fully accessible.

b. Provide the supporting calculation for the Revised Production energy O&M after reclassification of steam generation maintenance expense. Provide this in Excel spreadsheet format with all with all formulas, columns, and rows unprotected and fully accessible.

c. Provide supporting calculation for the proposed energy, base demand, intermediate demand and peak demand revenue calculations. Provide this in Excel spreadsheet format with all with all formulas, columns, and rows unprotected and fully accessible.

20. Based upon Mr. Gorman's proposed adjustments to Mr. Seelye's 6CP cost of service study (COSS):

a. Provide a revised COSS with these adjustments. Provide all workpapers supporting the revised COSS in Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible.

b. Provide a table listing the relative rates of return for each rate class.



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cc: Parties of Record

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Case No. 2020-00350

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