COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

COMMISSION STAFF'S SECOND 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 March 20, 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 LG&E's response to Commission Staff's First Request for Information (Staff's First Request), Item 2, pages 1–2. Explain LG&E's decision process for evaluating whether to purchase at the first-of-the-month or daily prices.

2. Refer to LG&E's response to Staff's First Request, Item 2, in which LG&E confirms that the only gas companies in Kentucky that have Performance-Based Ratemaking (PBR) mechanisms are LG&E, Columbia Gas of Kentucky, Inc. (Columbia Kentucky), and Atmos Energy Corporation (Atmos). Refer also to LG&E's response to Staff's First Request, Item 4, in which it states that the "absence of a well-constructed PBR mechanism will stifle risk-taking and innovation designed to produce lower gas costs." Explain in full detail how all of the other gas companies in Kentucky provide low-cost gas to its customers without a PBR mechanism.

3. Refer to LG&E's response to Staff's First Request, Item 2, in which LG&E asserts that its PBR mechanism is more fully aligned with least-cost purchasing strategies, has a higher risk level, and a lower level of reward when compared to Atmos and Columbia Kentucky. Based on these assertions, explain whether LG&E is stating that the PBR mechanisms of Atmos and Columbia Kentucky should be more similar to LG&E's PBR mechanism.

4. Refer to LG&E's response to Staff's First Request, Item 4, pages 2–3.

a. State whether ceasing or eliminating the listed optimization activities would violate the regulatory prudence standard discussed in response to Item 1. Explain why continuing these activities at or near LG&E's historical level would not be a natural outcome of the experience it has gained through the PBR mechanism.

b. For each optimization activity that LG&E asserts may cease or be limited without "a well-constructed and properly incentivized PBR mechanism," describe why the activity would be discontinued or limited. The response may group together activities with similar reasoning.

5. Refer to LG&E's response to Staff's First Request, Item 4. State the extent to which any of the optimization activities listed on pages 2–3 have resulted in gas cost losses.

6. Refer to LG&E's response to Staff's First Request, Item 8, in which LG&E asserted to "[s]ee the response to Question No. 4." This answer is not adequate. As previously requested, 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.

7. Refer to LG&E's response to Staff's First Request, Item 9. Explain whether LG&E's proposal to increase its sharing percentages would encourage decreased reliability.

8. Refer to LG&E's response to Staff's First Request, Item 13, in which LG&E stated that the "most significant risk of loss under an off-system sale is that the counterparty will not reimburse LG&E for the gas sold."

a. Provide a detailed explanation with examples of LG&E not being reimbursed for gas sold by a counterparty.

b. Explain how the risk that the counterparty will not reimburse LG&E for the gas sold is controlled.

9. Refer to LG&E's response to Staff's First Request, Item 15.

a. Confirm that LG&E's proposed sharing percentages would increase customers' gas costs by 0.35 percent, all else being equal.

b. Explain whether LG&E's proposed incentive levels, as compared to the current levels, will create a disincentive for LG&E to create as much savings as possible under the mechanism given the risks and rewards embodied in the mechanism.

c. Explain whether the shareholder portion of the total savings approaching 50 percent of the total savings indicates that LG&E's sharing percentage bands do not appropriately challenge LG&E's ability to reduce gas costs.

10. Refer to LG&E's response to Staff's First Request, Items 15, 17, and 20. If LG&E does not separately track costs associated with its PBR-related activities, then explain how a true cost-benefit analysis can be determined.

11. Refer to the Attachment to the LG&E's response to Staff's First Request, Item 18.

a. Confirm that the label to row 7, "Disincentive to perform over a certain savings level?" refers to a limit on the indicated utility's ability to share savings with customers.

b. Confirm that the utilities in four of the eight states to which LG&E's PBR mechanism is compared are Columbia affiliates only, and that their PBR mechanisms are largely limited to Off System Sales and Capacity Release.

c. State whether LG&E is aware of whether the UGI Utilities' Revenue Sharing Incentive Mechanism in Pennsylvania applies to all utility revenues, or whether it is limited to gas cost procurement.

d. State whether LG&E can confirm whether Spire Missouri still has an authorized Gas Cost Incentive Plan.

e. Confirm that of the eight states for which information is provided, the state with an approved gas cost PBR mechanism most similar to that of Kentucky utilities is California, and that the features of the California mechanisms which differ most with Kentucky mechanisms are the level of savings subject to sharing, the calculation of the sharing portion, and the limit to utility sharing.

12. Refer to LG&E's response to Staff's First Request, Item 19. State whether the Total Annual Actual Transportation Costs include any capital cost recovery mechanisms for modernization of natural gas facilities from its pipeline suppliers. If so, provide the annual amount from each supplier, and the extent to which discounts from such cost recovery mechanisms are included in Savings from Pipeline Discounts.

13. Assuming financial hedging instruments impact gas transportation costs, off-system sales and storage service transactions, and actual gas costs during the same period, explain how gains or losses from the use of financial hedging instruments and the transaction costs associated with such instruments are allocated to the PBR mechanism components.

Kent A. Chandler
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED MAR 0 5 2020

cc: Parties of Record

*Honorable Allyson K Sturgeon
Senior Corporate Attorney
LG&E and KU Energy LLC
220 West Main Street
Louisville, KENTUCKY 40202

*Andrea M. Fackler
Manager, Revenue Requirement
Louisville Gas and Electric Company
220 W. Main Street
P. O. Box 32010
Louisville, KY 40202

*Justin M. McNeil
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Larry Cook
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*J. Michael West
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Rick E Lovekamp
Manager - Regulatory Affairs
LG&E and KU Energy LLC
220 West Main Street
Louisville, KENTUCKY 40202

*Louisville Gas and Electric Company
220 W. Main Street
P. O. Box 32010
Louisville, KY 40232-2010