

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

NOTICE OF FILING

Notice is given to all parties that the following materials have been filed into the record of this proceeding:

- The digital video recording of the evidentiary hearing conducted on June 22, 2020 in this proceeding;
- Certification of the accuracy and correctness of the digital video recording;
- A written log listing, inter alia, the date and time of where each witness' testimony begins and ends on the digital video recording of the evidentiary hearing conducted on June 22, 2020.

A copy of this Notice, the certification of the digital video record, and hearing log have been served upon all persons listed at the end of this Notice. Parties desiring to view the digital video recording of the hearing may do so at <https://youtu.be/ORQcGNggawo>.

Parties wishing an annotated digital video recording may submit a written request by electronic mail to pscfilings@ky.gov. A minimal fee will be assessed for a copy of this recording.

Done at Frankfort, Kentucky, this 23rd day of July 2020.



Kent A. Chandler
Acting Executive Director
Public Service Commission of Kentucky

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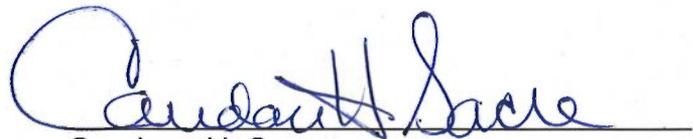
CASE NO.
2019-00437

CERTIFICATION

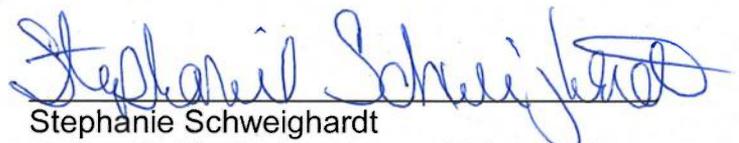
I, Candace H. Sacre, hereby certify that:

1. The attached DVD contains a digital recording of the Formal Hearing conducted in the above-styled proceeding on June 22, 2020. The Formal Hearing Log, Exhibit List, and Exhibits are included with the recording on June 22, 2020;
2. I am responsible for the preparation of the digital recording;
3. The digital recording accurately and correctly depicts the Formal Hearing of June 22, 2020; and
4. The Formal Hearing Log attached to this Certificate accurately and correctly states the events that occurred at the Formal Hearing of June 22, 2020, and the time at which each occurred.

Signed this 17th of July, 2020.



Candace H. Sacre
Administrative Specialist III



Stephanie Schweighardt
Notary Public State at Large ID#: 614400
Commission Expires: January 14, 2023



Date:	Type:	Location:	Department:
6/22/2020	Public Hearing\Public Comments	Hearing Room 1	Hearing Room 1 (HR 1)

Witness: J. Clay Murphy; Pamela L. Jaynes
 Judge: Robert Cicero; Michael Schmitt
 Clerk: Candace Sacre

Event Time	Log Event	
9:02:14 AM	Session Started	
9:02:15 AM	Vice Chairman Cicero Note: Sacre, Candace	Good morning. We are now on the record in Case No. 2019-00437, Electronic Application of Louisville Gas and Electric Company for Renewal and Proposed Modification of Its Performance-Based Ratemaking Mechanism.
9:02:33 AM	Vice Chairman Cicero Note: Sacre, Candace	My name is Robert Cicero. I am Vice Chairman of the Public Service Commission, and I'll be presiding today. Seated to my left is Chairman Schmitt and, by videoconference, is Commissioner Dr. Talina Mathews.
9:02:45 AM	Vice Chairman Cicero Note: Sacre, Candace	At this time, I would normally caution attendees to please set your cell phones to silent mode or turn them off. Due to the current state of emergency in Kentucky, the Commission is hosting this hearing via videoconferencing. Since this continues to be a learning experience for everyone, there are a few suggestions I would offer. (Click on link for for comments.)
9:03:04 AM	Camera Lock Comm Center Activated	
9:03:10 AM	Camera Lock Comm Staff Activated	
9:03:13 AM	Camera Lock Comm Wide Activated	
9:04:35 AM	Vice Chairman Cicero Note: Sacre, Candace	The hearing today is for the purpose of taking evidence on Louisville Gas and Electric's Application filed on December 27, 2017, in this matter.
9:04:43 AM	Vice Chairman Cicero Note: Sacre, Candace	At this time, we will have the appearance of entry of counsel. Given the unique challenges of conducting a video hearing, I will also request that each party's counsel also identify their witnesses at this time. Mr. Ingram?
9:04:56 AM	Atty Ingram LG&E Note: Sacre, Candace	Thank you, Your Honor. I'm Lindsey Ingram, Stoll Ingram Odgen in Lexington, Kentucky. I'm external counsel for LG&E, the Applicant in this matter. Today, with us, we have the two LG&E witnesses, Clay Murphy and Pam Jaynes, and just so everyone is aware of the set-up here, I am at LG&E's offices in Louisville, and Mr. Murphy and Ms. Jaynes are in a conference room next to me, and they are in the same room, so they'll be using the same computer and just switching off as necessary. Also appearing for LG&E today are their internal counsel, Greg Cornett and Allyson Sturgeon. Allyson was just on my video feed, and I don't see her now, so she may be having an issue, but she will be attending today as well as Mr. Cornett which everybody can see now.

9:05:01 AM	Camera Lock Deactivated	
9:05:53 AM	Vice Chairman Cicero	
	Note: Sacre, Candace	Thank you. It's my understanding that the Applicant requested approval to excuse two witnesses, Ms. Charnas and Mr. Jessee. I caution counsel that the Commission is granting this request and expects that the remaining witnesses be prepared to answer any questions that Ms. Charnas and Mr. Jessee would have been responsible for.
9:06:00 AM	Camera Lock Comm Staff Activated	
9:06:02 AM	Camera Lock Comm Wide Activated	
9:06:15 AM	Atty Ingram LG&E	
	Note: Sacre, Candace	We understand, Your Honor.
9:06:17 AM	Vice Chairman Cicero	
	Note: Sacre, Candace	For the Attorney General?
9:06:17 AM	Camera Lock Deactivated	
9:06:20 AM	Camera Lock Comm Wide Activated	
9:06:22 AM	Asst Atty General West	
	Note: Sacre, Candace	Your Honor, Mike West for the Attorney General's Office.
9:06:22 AM	Camera Lock Deactivated	
9:06:26 AM	Vice Chairman Cicero	
	Note: Sacre, Candace	Do you have any witnesses, Mr. West?
9:06:28 AM	Asst Atty General West	
	Note: Sacre, Candace	No, we do not have any witnesses.
9:06:28 AM	Camera Lock Comm Wide Activated	
9:06:30 AM	Vice Chairman Cicero	
	Note: Sacre, Candace	For Commission Staff?
9:06:32 AM	Staff Atty Bellamy PSC	
	Note: Sacre, Candace	Ben Bellamy and Andrew Bowker, Your Honor.
9:06:34 AM	Camera Lock Deactivated	
9:06:37 AM	Vice Chairman Cicero	
	Note: Sacre, Candace	I understand that public notice has not been provided, but a Motion for Deviation has been filed, is that correct?
9:06:38 AM	Camera Lock Comm Wide Activated	
9:06:45 AM	Atty Ingram LG&E	
	Note: Sacre, Candace	We think it has been provided, Your Honor, but we don't - we know it wasn't provided within the seven- to 21-day window prior to the beginning of hearing, so you are correct. As a result of that, we file a motion for deviation asking for approval of the publication effort that was made. We do believe publication occurred in all of the required 18 newspapers last week, including the Courier-Journal, which we believe happened last Wednesday, but, yes, that is the subject of our pending Motion for Deviation. We did - just so the Commission is aware, LG&E moved forward as quickly as it could with making its publication effort on the same day the Order came out rescheduling the hearing date for today.
9:06:51 AM	Camera Lock Deactivated	
9:07:32 AM	Vice Chairman Cicero	
	Note: Sacre, Candace	Okay, thank you. I understand that there was an issue with the timing, and the Commission is looking at the request, and I don't believe there's going to be any issue with that, so thank you for that.
9:07:36 AM	Camera Lock Comm Wide Activated	

9:07:49 AM	Vice Chairman Cicero Note: Sacre, Candace	So, for public comment, should anyone from the public like to provide the Commission with public comment, instructions to call in are located on our website psc.ky.gov. The phone lines will remain open for several minues at the start of the hearing and closed if there are no callers on or after everyone has had an opportunity to speak. (Click on link for further comments.)
9:08:33 AM	Staff Atty Bellamy PSC Note: Sacre, Candace	I have the conference line live, and I'll check right now.
9:08:37 AM	Vice Chairman Cicero Note: Sacre, Candace	Okay, so thank you, Mr. Bellamy.
9:08:40 AM	Camera Lock Deactivated	
9:08:53 AM	Staff Atty Bellamy PSC Note: Sacre, Candace	I don't believe anyone is on the line, and we got on before the record. It indicated no one was on it. I've not heard anyone get on since.
9:08:59 AM	Vice Chairman Cicero Note: Sacre, Candace	Okay, thank you. Mr. Ingram, at this time, you may call your first witness.
9:09:02 AM	Camera Lock Comm Wide Activated	
9:09:07 AM	Atty Ingram LG&E Note: Sacre, Candace	The company calls its first witness, Mr. Clay Murphy.
9:09:10 AM	Camera Lock Deactivated	
9:09:11 AM	Vice Chairman Cicero Note: Sacre, Candace	Witness is sworn.
9:09:12 AM	Camera Lock Comm Staff Activated	
9:09:15 AM	Camera Lock Comm Wide Activated	
9:09:19 AM	Vice Chairman Cicero Note: Sacre, Candace	Thank you. Mr. Ingram, you may ask.
9:09:19 AM	Camera Lock Deactivated	
9:09:23 AM	Atty Ingram LG&E - witness Murphy Note: Sacre, Candace	Direct Examination. Good morning, Mr. Murphy. Did you cause to be filed written direct testimonies in support of the Application in this case that was filed at the end of last year?
9:09:24 AM	Camera Lock Comm Wide Activated	
9:09:26 AM	Camera Lock Deactivated	
9:09:38 AM	Atty Ingram LG&E - witness Murphy Note: Sacre, Candace	And, Mr. Murphy, were you also identified as a witness or a co-witness on a number, if not all, of the Data Responses that the company has filed in this matter?
9:09:52 AM	Atty Ingram LG&E - witness Murphy Note: Sacre, Candace	If I were to ask you the same questions here today that were set forth in your direct testimony, would you provide the same answers?
9:10:02 AM	Atty Ingram LG&E - witness Murphy Note: Sacre, Candace	And, if I were to ask you the same questions set forth in the Data Requests for which you were identified, would your answers be the same?
9:10:13 AM	Atty Ingram LG&E Note: Sacre, Candace	And, Your Honor, if you would indulge us for just a minute, Mr. Murphy would like to give a very short explanation as to why LG&E requested a hearing today. Is that permissible?
9:10:24 AM	Vice Chairman Cicero Note: Sacre, Candace	Sure, go ahead.
9:10:26 AM	Atty Ingram LG&E - witness Murphy Note: Sacre, Candace	Mr. Murphy, why did the company request a hearing in this matter?

9:12:46 AM	Atty Ingram LG&E Note: Sacre, Candace	Thank you, Mr. Murphy. Your Honor, Mr. Murphy is available for cross examination.
9:12:52 AM	Vice Chairman Cicero Note: Sacre, Candace	Mr. West?
9:12:56 AM	Asst Atty General West Note: Sacre, Candace	Thank you. I just have a few questions.,
9:12:59 AM	Asst Atty General West - witness Murphy Note: Sacre, Candace	Cross Examination. Good morning, Mr. Murphy. You mentioned the NYMEX change. Can you just explain a little bit about how additional benchmarks expand gas supply contracting opportunities generally?
9:14:04 AM	Asst Atty General West - witness Murphy Note: Sacre, Candace	Okay, moving on from that, on page 14, I believe there's a statement, and I'm referring to the report submitted with the Application, when it's discussing sharing going from potentially twenty-five-thirty-five to thirty-seventy, it says LG&E's proposed sharing mechanism wil better reflect the risks inherent in PBR mechanism when compared to risks found in PBR mechanisms of Atmos and Columbia, so can you just, again, generally talk about the risks inherent to PBR mechanisms?
9:15:35 AM	Asst Atty General West - witness Murphy Note: Sacre, Candace	So, under the mechanism, how would losses occur?
9:16:27 AM	Asst Atty General West - witness Murphy Note: Sacre, Candace	Okay, so (inaudible) began operating under a PBR that was set in the 2014 case, is that right?
9:16:37 AM	Asst Atty General West - witness Murphy Note: Sacre, Candace	And, in that case, I believe the company requested a 30 percent share of savings up to two percent with a 50/50 split above that, and they received - you received a 25 percent share up to three percent and 50/50 above that. You saved \$20 million basically over that period, roughly, and seven million of that went to shareholders. If you had been granted the 30 percent up to two percent and 50/50 above that that was requested, would that have affected the amount of savings that was generated during that period?
9:18:08 AM	Asst Atty General West - witness Murphy Note: Sacre, Candace	So, if the Commission were to grant the same sharing mechanism going forward, are there any specific actions or decisions that you can point to that LG&E would take in order to generate additional savings that maybe you didn't take those actions or make those decisions previously?
9:19:26 AM	Asst Atty General West Note: Sacre, Candace	I think that's all the questions I have. Thank you, Mr. Murphy.
9:19:30 AM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Bellamy?
9:19:38 AM	Staff Atty Bellamy PSC - witness Murphy Note: Sacre, Candace	Cross Examination. Good morning, Mr. Murphy. Can you hear me okay?
9:19:45 AM	Staff Atty Bellamy PSC - witness Murphy Note: Sacre, Candace	In your prefiled testimony, in the report that you attached, you discuss three components of LG&E's Performance Based Rate Mechanism, is that correct?
9:20:02 AM	Staff Atty Bellamy PSC - witness Murphy Note: Sacre, Candace	And the first component is the gas acquisition index factor and goes by the acronym GAIF, is that correct?

9:20:12 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace Out of curiosity, how do you pronounce the GIAF? Is that how you refer to it, or is there a -

9:20:18 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace I didn't know if you refer to it as a single word or something.

9:20:23 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace Okay, in general terms, that component of the Performance Based Rate mechanism, it measures the difference between the annual benchmark gas cost and the annual actual gas cost, is that correct?

9:20:58 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace And you're calculating each month, and then you're adding that a together to get the annual amount, correct?

9:21:15 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace And I did have a couple of questions about that, but I wanted to ask this first about - I was going to ask about the tariff, itself. If you could look at just Tariff Sheet 87 attached to the Application -

9:21:35 AM Staff Atty Bellamy PSC
Note: Sacre, Candace And, Kabrenda, if you could, could you bring that up on the screen? It's attached to the Application. It's page 47 of the PDF of the Application document. (Click on link for further comments.)

9:21:59 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace At the bottom of the page, there, on page 87, that's where it discusses or it kinda - LG&E's tariff kinda starts to discuss how the - it starts to discuss how the GAIF should be calculated, is that correct?

9:22:35 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace Just Tariff Sheet 87.

9:22:42 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace Yes, that's the first page, so just 87 not 87.8.

9:22:51 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace And it says there, at the bottom, it says GAIF, Gas Acquisition Factor, and then shows how that's calculated, and then for several pages on down, it kind of explains how that GAIF will be calculated, is that correct?

9:23:12 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace Could you look at the formula on Tariff Sheet 87.1, and that's the formula for the monthly Benchmark Gas Commodity Costs?

9:23:35 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace And that formula, there, that's basically - you said it's calculated monthly, like, the benchmark versus the actual is calculated monthly, and that BMGCC, there, that's how you calculate the monthly benchmark cost, is that correct?

9:23:56 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace And am I correct that that formula essentially has two parts; there's one part that calculates the monthly benchmark cost for gas purchases within the company's firm daily contract quantities, and then there's the second part that calculates the benchmark cost for gas purchases that exceed the company's firm daily contract quantities?

9:24:21 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace And the part that is for gas purchases that exceed the firm daily contract quantities is the second part, there, after the plus sign where it says PEFDCQ x DAI, is that correct?

9:25:06 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace And that's what it says, DAI is defined as the Daily Area Index on page 87.4 of the Tariff, is that correct?

9:25:31 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace I apologize. I misspoke. You're correct. Delivery Area Index. I said Daily Area Index. That was one thing I was wondering. Is that calculated on a daily basis so every time there's purchases on a day above the firm daily contract quantities then you'll calculate that DAI for that specific day, and it could happen 30 days in a month or it might happen just two days in a month? Is that how that works?

9:27:00 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace My question was about how that benchmark, the benchmark rate, is calculated, and I'm talking about the Delivery Area Index, so it says "The daily DAI applicable to the daily purchases made to city-gate delivery shall be higher of the following, of either," and then it has two formulas for calculating the DAI, and the only variable that's different in those formulas is the DAI (TGT-1) versus the (TGT-2), which is referring to - those are defined below but are effectively the midpoint in those zones on those particular transmission pipelines, correct?

9:29:02 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace Okay. my main question is why use the higher of the two as the benchmark?

9:29:18 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace I realize that, but, if you're using the higher of the two, would you then not just be able to purchase gas on a daily rate from the cheaper one, and then there would always be a savings?

9:30:02 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace Well, my question is just, if you're setting the mechanism up so that the benchmark is the higher of two possible locations where you can purchase the gas on a daily basis, wouldn't you always have a savings because you're choosing the higher one and then you would just buy it from the cheaper one, and then there would always be an incremental savings between those two?

9:31:14 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace I mean, when you're purchasing gas on a daily basis though, would you check the price of each pipeline in each zone to determine, you know, what the price is there before you purchased it, or is it just - I guess I'm not necessarily sure how that works, if you wouldn't know the price before you actually purchased it.

9:31:40 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace So you don't know the price you're purchasing it for until after you purchase it?

9:32:04 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace I guess I would be confused then. If you don't know the price, then I would be somewhat confused as to how that this would then operate as an incentive if you're basically going into it blind.

9:33:23 AM Vice Chairman Cicero - witness Murphy
Note: Sacre, Candace Examination. Let me ask a question, so you're saying you're generating savings based on a price that you don't know about until the following day, but you're saying that that provides a savings because it's cheaper than whatever a committed price would be through the transmission line. Based on that, wouldn't you do everything on a daily basis because the long-term agreements are more expensive?

9:34:00 AM Vice Chairman Cicero - witness Murphy
Note: Sacre, Candace I'm talking under this portion of it. Couldn't you move more off the other portion of it and move it into this?

9:34:26 AM Vice Chairman Cicero - witness Murphy
Note: Sacre, Candace I understand the reduced risk by having a confirmed supplier. What I don't understand is talking about a portion of the formula that really there is no - other than the quantity, there's no decision by LG&E because you don't know what the price is, but you're hoping it generates savings?

9:35:41 AM Vice Chairman Cicero - witness Murphy
Note: Sacre, Candace If you were to look at the amount of savings that were generated over the last four years, how much would be attributed to this portion of the formula?

9:35:51 AM Camera Lock Comm Wide Activated
9:35:55 AM Camera Lock Deactivated
9:35:58 AM Vice Chairman Cicero
Note: Sacre, Candace Can you -

9:36:00 AM Staff Atty Bellamy PSC
Note: Sacre, Candace Yeah, I'll ask that as a post-hearing data request.

9:36:01 AM POST-HEARING DATA REQUEST
Note: Sacre, Candace VICE CHAIRMAN CICERO - WITNESS MURPHY
Note: Sacre, Candace SAVINGS GENERATED OVER LAST FOUR YEARS ATTRIBUTABLE TO DAI PORTION OF GAS ACQUISITION INDEX FACTOR

9:36:03 AM Vice Chairman Cicero
Note: Sacre, Candace All right. I didn't mean to interrupt you, Mr. Bellamy. Go ahead.

9:36:08 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace Cross Examination (cont'd). When you look at the supply, the other component of the formula, where you use the supply area and the X factor, when you're calculating the Supply Area Index Factor, which is kind of the corresponding component to the Delivery Area Index. Would you agree with that?

9:36:09 AM Staff Atty Bellamy PSC - witness Murphy
9:36:36 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace So, the Supply Area Index Factor, you take an average of - or, I guess, you take an average for different price listings for that zone. I was curious why not for - why not - with the DIA, why would you not use some sort of average of the two to determine the actual - what should be the benchmark? because then you've got the midpoint, and if you beat it, you beat it, but if you don't, you don't.

9:39:59 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace Okay, I think I understand what you're saying.

9:40:05 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace I mean, I think I understand, but I'll move on. With respect to the DAI, you only use two benchmark rates. You use the Texas Gas Transmission Zone 1 and Texas Gas Transmission Zone 4, but, for the SAI, you use a combination, basically, five different rates, three on the Texas Gas Transmission line and then two on the Tennessee line. Is there a reason why there's only two in the DAI and there's five up above, in the SAI?

9:42:24 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace Okay, so one thing I wanted to confirm is, it's not because you couldn't take the gas on a daily basis from those other pipelines in those other zones, it's because, you're saying, it's ease of use and because you get most of your gas from the Texas Gas Transmission line. Is that correct?

9:43:41 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace With respect to the SAI component, you've got up above - you know, the SAI fits into the formula above and the tariff, but then you have five different ways to calculate the SAI, and that's basically - it's based on the various pipelines. It's there, on page, tariff page, 87. and 87.3

9:44:27 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace So my question is, those locations are, basically, where you have capacity, like first contract capacity, and you mentioned that one of the reasons you use the Texas Gas Transmission line with respect to the DAI is because that's where you get most of your gas?

9:44:46 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace And, if look there, I'm looking at, just as an example, SAI (TGT-SL), which is one of the zones on the Texas Gas Transmission line, correct?

9:44:59 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace And then you have the various ways in which you're going to calculate that benchmark rate, and you're using - one is the average weekly Natural Gas Week Gas Price Report, then you've got the second one and the third one. The first three of those, are - all of the prices listed in those, are they all related to the actual price on the Texas Gas Transmission line at the Zone S-L?

9:45:32 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace When you add in the fourth, the New York Mercantile Exchange Settled Closing Price, is that based on the actual price on that transmission line in that zone?

9:46:01 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace And forgive me for not being familiar with how the New York Mercantile Exchange lists rates or how this is listed. Is this like a composite rate, like a national composite rate, or is - the New York Mercantile Exchange, is it giving a rate for each zone also?

9:46:30 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace But it gives one rate, correct?

9:46:39 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace So I guess my question is, if the purpose of this is to kind of get an average of the gas prices at these various locations, why use the one that might be in one of the zones, but it's not in all the zones?

9:47:35 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace When it says "New York Mercantile Exchange Settled Closing Price for the prompt month," what does that mean to you, the prompt month"

9:48:45 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace Before you decided to include the New York Mercantile price, did you look to see whether - how the New York Mercantile price compared to the other listings for the various zones?

9:49:03 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace And was - the New York Mercantile price, was that typically a lower price or typically a higher price than the other listings?

9:49:34 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace Did you look at whether or not (inaudible) if the NYMEX had been included there would have been more or less savings reflected in the PBR?

9:49:49 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace And what was the result?

9:50:00 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace Do you know whether or not it was more or less savings?

9:50:09 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace And we'll ask that as a post-hearing data request.

9:50:14 AM POST-HEARING DATA REQUEST
Note: Sacre, Candace STAFF ATTY BELLAMY PSC - WITNESS MURPHY
Note: Sacre, Candace HAD NYMEX BEEN INCLUDED IN FORMULA WOULD RESULT HAVE BEEN MORE OR LESS SAVINGS

9:50:21 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace If the Commission eliminated just the GAIF component of the Performance Based Rate mechanism, would LG&E do anything differently in procuring its gas?

9:51:53 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace I guess, the purpose of the PBR is, in part, to incentivize the purchase of the least cost gas, is that correct?

9:52:24 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace But, I mean, the least cost is going to be - to me, the least cost is the least cost, is that not correct? I mean, you can't really get below the least cost?

9:53:56 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace I mean, do you think it would be prudent for an LDC to purchase gas a day at a time though?

9:54:12 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace With respect to just purchasing the gas, I mean, what - when you're determining which gas to purchase, what are you all typically doing on a daily basis? And I'm just talking about the gas cost, itself, not the transmission costs or things like that.

9:55:30 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace I guess, I don't want to interrupt you, but those things you just mentioned, would you continue to do those things even if the PBR for the GAIF portion didn't exist?

9:56:44 AM Atty Ingram LG&E
Note: Sacre, Candace Mr. Murphy, let me interrupt for just a second. I just want to make sure the record is clear. Are you referring to a PSC Question 1-2 on page 2 of 6? Sorry for interrupting, but I just wanted to clear that up.

9:58:24 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace I guess I just am not getting the point that you would stop doing those things if the GIF portion - or why you would stop doing them just because that portion of the Performance Based Rate mechanism was eliminated.

9:59:25 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace I guess, if the GAIF went away and you all stopped doing these things, would there be any savings in terms of operating expenses?

10:00:15 AM Vice Chairman Cicero - witness Murphy
Note: Sacre, Candace Examination. So let me ask a quick question. You're referring to the fact that there's no cost savings. The ratepayers are already paying for whatever resources are necessary to generate the savings. There will be no benefit savings to them should the mechanism go away, so shareholders participate in the savings of which you're proposing to increase, but there's no cost incurred by LG&E to generate these savings because ratepayers are already paying for it, and they will not do as good a job as they were doing before because there's no incentive. Is that correct?

10:01:42 AM	Atty Ingram LG&E Note: Sacre, Candace	Mr. Vice Chairman, if I may interrupt for just one second. I just want everyone to be aware that, when you speak, you are not on camera. The PSC's hearing room camera is focused on an empty chair, so I just raise that for record purposes so that we'll know it's you speaking. (Click on link for further comments.)
10:02:07 AM	Camera Lock Comm Wide Activated	
10:02:14 AM	Vice Chairman Cicero - witness Murphy Note: Sacre, Candace	So, going back to the question about risk, how often has LG&E suffered a loss because of risk that they've taken in generating these savings?
10:03:44 AM	Vice Chairman Cicero - witness Murphy Note: Sacre, Candace	If you eliminated the DAI portion of the savings that were - or the loss that was generated for LG&E, how much of those would be responsible for the 23 percent that actually were transactions that incurred a loss?
10:04:08 AM	Vice Chairman Cicero Note: Sacre, Candace	Okay, fair enough.
10:04:10 AM	Staff Atty Bellamy PSC Note: Sacre, Candace	Did you want to ask that as a post-hearing data request?
10:04:12 AM	Vice Chairman Cicero Note: Sacre, Candace	Yes, I think he said that he would provide it (inaudible).
10:04:15 AM	POST-HEARING DATA REQUEST Note: Sacre, Candace Note: Sacre, Candace	VICE CHAIRMAN CICERO - WITNESS MURPHY IF DAI PORTION OF GAIF ELIMINATED, HOW MUCH OF THAT RESPONSIBLE FOR 23 PERCENT OF TRANSACTIONS INCURRING LOSS
10:04:53 AM	Vice Chairman Cicero - witness Murphy Note: Sacre, Candace	Yes, I think my question pertains to the fact that I understand the company is predicating this change or continuing this mechanism based on the fact that there are savings that are generated and that without those incentives, the company would not be willing to take as much risk, and I'm interested in just how much risk is actually taken and what type of aware needs to be provided in order to continue making those transactions that apparently generate all these savings, so I'm just interested in seeing how much risk is actually taken or if it's a matter of there's really not that much risk. Natural gas volatility has gone way down, and some of the proposals here, I'm not sure when you talk about increasing percentages or changing the mechanism in order to (inaudible) NYMEX, and you'd probably add more savings in a situation where the risk on gas pricing doesn't seem to be as much as it was when these PBRs were first put into place, and I think that's where the Commission is right now, is to try to determine whether PBRs are still relevant given the current climate of natural gas pricing. That's what we're trying to find out.
10:06:48 AM	Atty Ingram LG&E Note: Sacre, Candace	Mr. Chairman, you mentioned before the Data Response that refers to losses, and I think what you wanted me to remind you there was PSC 1-7, okay?
10:07:41 AM	Vice Chairman Cicero - witness Murphy Note: Sacre, Candace	I think my initial question and probably what this table refers to had to do with of the 23 percent of transactions that resulted in a loss, how many were related to the DAI portion of the calculation and the daily transactions of those 23 percent.

10:08:07 AM	Vice Chairman Cicero - witness Murphy Note: Sacre, Candace	Okay, so is that what this table refers to?
10:09:45 AM	Vice Chairman Cicero - witness Murphy Note: Sacre, Candace	If I was to look at the price of gasoline back in '95 and I compared it to 2019, it would probably be similar as well, but we would all agree that there's been price fluctuations that occur in the middle that made these calculations much more relevant than they appear to be today. Would you agree?
10:10:40 AM	Vice Chairman Cicero - witness Murphy Note: Sacre, Candace	And I understand your comment. From my perspective, I would say that it's always the provider's obligation to go with the least cost, and that's their fiduciary responsibility. That's their job for their ratepayers regardless of whether there's incentive or not. That's why, when you go back and review this -
10:11:01 AM	Vice Chairman Cicero - witness Murphy Note: Sacre, Candace	Well, please don't interrupt me, okay? I wasn't done talking.
10:11:07 AM	Vice Chairman Cicero - witness Murphy Note: Sacre, Candace	My comment was, so when you talk about this obligation to the ratepayers who are incurring the expense for your resources to generate these savings, it's already there, and it's not going to go away either way. It's the company's responsibility to make sure, and their responsibility to their ratepayers to generate savings, if they can do it, and that's why the risk factor is such an important part of it. How much risk is LG&E really exposed to to do the service that they're doing? I think that's where the Commission is right now. Now, you can go ahead and respond.
10:13:25 AM	Vice Chairman Cicero - witness Murphy Note: Sacre, Candace	I don't think there's any question the benchmarks can remain in place internally without a savings being generated. That's - you refer to the benchmarks going away and how do you measure performance. There's nothing that says you can't measure against NYMEX or whatever other zone from Texas Gas that you utilize. You can always measure that. You can use it as an internal incentive for your staff. I mean, there's nothing that says those have to go away. You're just saying that you need those in order to generate the savings, and I guess my question is - my question is, if you're going to generate savings, you're even proposing that the savings be increased to other companies that are providing services in their PBRs, and I understand the desire to be - to have the same measurement system in order to generate a benefit for shareholders, but this is coming at the same time that the Commission is looking at those other providers and their PBR mechanisms to see whether their fears are reasonable given today's environment, so it'll be interesting on a risk versus benefit analysis to see where we come out with this.
10:15:13 AM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Bellamy, I jumped in the middle of your cross examination. Go ahead.
10:15:19 AM	Staff Atty Bellamy PSC - witness Murphy Note: Sacre, Candace	Cross Examination (cont'd). I was actually going to move on and just ask about the Transmission Index Factor, Mr. Murphy, and that's the second - you mentioned earlier, when I was asking questions, there's three components to the PBR, and the second one is the Transmission Index Factor, correct?
10:16:00 AM	Staff Atty Bellamy PSC - witness Murphy Note: Sacre, Candace	Eighty-seven-point-five, yes.

10:16:11 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace Okay, and, just in general terms, again, this component of the Performance Based Rate mechanism measures the difference between the annual benchmark gas transportation costs and the annual actual gas transportation costs, and, again, that's calculated on a monthly basis, and then you get the annual amount, is that correct?

10:16:59 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace And would you agree that the benchmark gas transportation costs for each pipeline include the demand - or the demand contracted for at the tariff rate, the actual volumes of gas delivered at the tariff rate, and then actual cost of certain surcharges, direct bills, and other amounts approved by FERC?

10:17:36 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace Yes, that's correct, so the TPDR is the tariff demand rate, the DQ is contracted for demand, the TPCR is the tariff, I guess, volumetric rate -

10:17:38 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace - and then the AV is the actual volumes delivered at the Company's city gates, correct?

10:18:06 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace And then S&DB is the other thing I mentioned which was the surcharges and other amounts authorized by FERC, correct?

10:18:20 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace So could you look at - this is the Application, the report, it's attached to the Application Report, Appendix B to the report.

10:18:35 AM Staff Atty Bellamy PSC
Note: Sacre, Candace And I believe, Kabrenda, it's page 36 of the PDF in which the Application is included, so it's on the same document as the tariff. (Click on link for further comments.)

10:18:58 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace If you could look at page 5, which is the last page of that Appendix B and the monthly amounts there, so that second column, the PBR-TIF, that's basically the monthly savings under the TIF portion of the Performance Based Rate mechanism, correct?

10:19:25 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace Okay, and then, if you notice there, in 2018 or the year beginning, I guess, November 2018, the amount each month was basically exactly the same, correct?

10:19:41 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace And that's because the benchmark is the contracted demand and contracted volume at the tariff rates, but then LG&E has long-term contracts for those exact amounts that are actually lower than the tariffed rate, is that correct?

10:20:15 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace And that's because - and the reason it's the same every month is because there's long-term contracts in place?

10:21:23 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace Would you agree that that amount remains pretty consistent month to month even going back all four years of the historic period shown on Appendix B?

10:22:07 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace That was the correct page.

10:22:55 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace So the savings is -

10:23:05 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace No. I understand that. I meant, it seems like, year to year, they're relatively consistent, and I'm assuming that's based on the contracted demand savings, and then occasionally you'll have a capacity release which will have an additional savings. Is that pretty accurate?

10:24:14 AM Camera Lock Deactivated

10:25:35 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace And I understand that - the tariff rate that's used for the benchmark, that's the tariff rate that's established by FERC, correct?

10:25:44 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace And then, with respect to the discounted contracts, those are filed with FERC but not necessarily approved. It's they can be filed, and they might be disapproved or they might just be allowed to be placed into effect, is that correct?

10:26:33 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace How long has Tennessee Gas Pipeline been discounting transportation services for LG&E? Do you know?

10:26:54 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace And was that, like, one year before the PBR was placed into effect?

10:27:06 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace Can you just kind of explain to me, how does LG&E negotiate a reduction in the transportation rate below the FERC rate?

10:27:36 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace So you do a request for proposal, and then you might have multiple pipelines to which you all have access to respond, and, if one of them gives you a reduced rate that happens to be lower than all the tariff rates, then you'll accept that one, provided that they can actually provide the gas?

10:28:50 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace Okay, so if a discounted rate of one pipeline was actually still higher than the tariff rate of the other pipeline, you would still go with the other pipeline even though it wouldn't generate savings under the PDR?

10:29:19 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace I guess the question - I was just clarifying what you said. My understanding of what you said is you get a bid in and, like, say, you get a bid in for the Tennessee Pipeline and it's discounted from the Tennessee tariff rate but it still happens to be higher than the Texas transmission line rate, you would still go with the Texas transmission line if they could serve your capacity because (inaudible)?

10:30:11 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace And you don't have to go into any more detail. I don't want to go into confidential, and, if something gets into confidential, you know, just let me know. I was trying to be nonspecific.

10:32:41 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace I understand. The - and, if this is confidential, let me know, but, with respect to the gas supply or the transmission contracts, is there a typical term that those contracts would have? I'm assuming it could be any term, but is there something that's pretty normal as far as what the terms have been historically?

10:37:11 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace That's fine, but they're generally a number of years, basically, at least?

10:38:12 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace And, in response to Commission Staff's First Request for Information, Item 11-B -

10:38:21 AM Staff Atty Bellamy PSC
Note: Sacre, Candace And you can pull that up, Kabrenda, if you don't mind. Thank you, and I'll wait until she pulls that up, if you don't mind.

10:38:54 AM Vice Chairman Cicero
Note: Sacre, Candace While we're waiting for her to pull this up, once the witness answers this question, we're going to take a break till about 11 o'clock, and then you can continue your cross exam.

10:39:10 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace You mentioned, Mr. Muprhy, two scenarios in which LG&E could be required to pay more than the FERC-approved rate, and I believe this is referring to transmission costs, is that correct? It would be transmission into main costs under the FERC rate, basically, correct?

10:39:35 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace Those two scenarios there, they're listed as A and B. To your knowledge, has either of those scenarios ever occurred with respect to LG&E?

10:41:09 AM Vice Chairman Cicero
Note: Sacre, Candace Okay, so we will recess until 11 o'clock, and, at that point, Mr. Bellamy can continue his cross examination. We're in recess.

10:41:17 AM Camera Lock Comm Wide Activated

10:41:23 AM Session Paused

11:02:03 AM Session Resumed

11:02:06 AM Vice Chairman Cicero
Note: Sacre, Candace We are back on the record, and, Mr. Bellamy, would you like to continue your cross examination?

11:02:12 AM Camera Lock Comm Wide Activated

11:02:14 AM Camera Lock Deactivated

11:02:17 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace Cross Examination (cont'd). Mr. Murphy, I was just going to move on to the Off-System Sales Index Factor, and that's the third factor of the PBR, correct?

11:02:29 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace And this, basically, is intended to capture the net revenues generated by LG&E from the off-system sales, correct?

11:02:39 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace Could you - at Tariff Page 87.8, I decided to question about some language that was being added.

11:03:05 AM Staff Atty Bellamy PSC
Note: Sacre, Candace Let's see. Would you mind pulling that up, Kabrenda, on the screen?

11:03:15 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace So there, where it says that language, "Off-system sales and storage service transactions made for operational or administrative reasons are not subject to benchmarking under the OSSIF component of the PBR mechanism," what's the purpose of this change?

11:04:27 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace And what to you is meant by operational reasons and administrative reasons? How would you define those terms?

11:06:33 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace Okay, so this has never occurred, so -

11:06:42 AM Staff Atty Bellamy PSC - witness Murphy
Note: Sacre, Candace Could you take a look at your Response to Staff's Second Request for Information, Item 3? And you indicated there -

11:07:09 AM	Staff Atty Bellamy PSC - witness Note: Sacre, Candace	Murphy Okay, and you indicated there, ". . . given the robust design of LG&E's PBR mechanism, LG&E sharing mechanisms should be at least as favorable as the sharing mechanisms of the other two LDCs. This would allow LG&E to complete the transition apparently contemplated in the Commission's Order in Case No. 2014-00476 . . . which stated that the change proposed by LG&E was too abrupt. Therefore, in this Application, LG&E is requesting to complete the transition to the sharing mechanism proposed. . . in Case No. 2014-00476." When you're talking there, what is the proposed change you're referring to there?
11:09:25 AM	Staff Atty Bellamy PSC - witness Note: Sacre, Candace	Murphy In the report, I think you mentioned that the risk justifies that - the fact that your all's program is more risky than the other LDCs justifies that your percentage be similar to the other LDCs. Is there any other reason why you could give for increasing that percentage or increasing the sharing by lowering the percentage?
11:11:43 AM	Staff Atty Bellamy PSC - witness Note: Sacre, Candace	Murphy I guess not just about a percentage that lowering the sharing percentage down to two percent where it moves to 50 percent, and I think the reason for that was the difference in risk between LG&E's and the other LDCs, but -
11:12:08 AM	Staff Atty Bellamy PSC - witness Note: Sacre, Candace	Murphy I understand, but I think that in your report the justification was that because LG&E's program is more risky than the other LDCs that the sharing should be, at least, equal to the other LDCs, is that correct?
11:12:30 AM	Staff Atty Bellamy PSC - witness Note: Sacre, Candace	Murphy In response to Staff's First Request for Information, Item 18, you provided tables comparing the gas cost incentive mechanisms of all the utilities in other jurisdictions that you're able to find, is that correct?
11:13:12 AM	Staff Atty Bellamy PSC - witness Note: Sacre, Candace	Murphy Do you know whether gas cost incentive mechanisms were more prevalent in the past than they are now in terms of utilities in other states?
11:13:52 AM	Staff Atty Bellamy PSC - witness Note: Sacre, Candace	Murphy So you're saying that they have decreased, you think, but it's because they've gone to where the customer can pick where they're purchasing the gas from?
11:14:51 AM	Staff Atty Bellamy PSC - witness Note: Sacre, Candace	Murphy Okay. Would you agree - if you could take a look at your Response to Staff's Second Request, Item 11-E, just let me know when you're there.
11:15:32 AM	Staff Atty Bellamy PSC - witness Note: Sacre, Candace	Murphy And there's mention of mechanisms of other states. Would you confirm that you responded to Item 11-E that the mechanisms approved in California and Tennessee are the most similar to LG&E's??
11:15:52 AM	Staff Atty Bellamy PSC - witness Note: Sacre, Candace	Murphy Can you kind of summarize the similarities and differences between those two, between the programs in Tennessee and California, and LG&E's mechanism?
11:18:42 AM	Staff Atty Bellamy PSC - witness Note: Sacre, Candace	Murphy So, in your opinion, is there any reasonable way to include a cap or a limit on utility sharing within a Performance Based Rate mechanism?

11:20:31 AM	Staff Atty Bellamy PSC - witness Note: Sacre, Candace	Murphy So you say it would be better to increase the sharing percentage in favor of the customer than it would be to put a cap in place, correct?
11:21:37 AM	Staff Atty Bellamy PSC - witness Note: Sacre, Candace	Murphy And that was my point. I didn't mean - my point was your thing. As opposed to a hard cap, you think a more appropriate response would be change the sharing percentages on that upper bound?
11:22:17 AM	Staff Atty Bellamy PSC - witness Note: Sacre, Candace	Murphy Could you explain the tolerance band used in the mechanism of Pacific Gas and Electric in California, if you're familiar with it?
11:22:34 AM	Staff Atty Bellamy PSC - witness Note: Sacre, Candace	Murphy I don't know if anything - I don't know if it referred to a specific question, but it did refer to some of the research you've done on other Performance Based Rate mechanisms and if - in Pacific Gas and Electric in California has a tolerance band that's used, and I was just curious if you're familiar with it.
11:24:58 AM	Staff Atty Bellamy PSC - witness Note: Sacre, Candace	Murphy Do you believe that the rising levels of gas utility base rates have any impact on the necessity or the relevance of PBR mechanisms?
11:25:17 AM	Staff Atty Bellamy PSC - witness Note: Sacre, Candace	Murphy Yeah, do you believe that increases in gas utility base rates have any impact on the necessity and the relevance of gas cost PBR mechanisms?
11:26:08 AM	Staff Atty Bellamy PSC - witness Note: Sacre, Candace	Murphy Do you have any opinion regarding why PBRs are not more prevalent in other jurisdictions?
11:27:04 AM	Staff Atty Bellamy PSC - witness Note: Sacre, Candace	Murphy Okay, and I just want to change gears really quick. Going back to the TIF component in the tariff sheet, which is on Tariff Sheet 87.5, there, you've got the benchmark monthly gas transportation cost which is then used to determine the benchmark for the year, and it's the sum of three costs, the BM(TGT), the BM(TGPL), and then BM (PPL), and you mention you only have two transmission lines from which you all can currently receive transportation services, so I'm curious, what is this BM(PPL) that's included in the benchmark?
11:28:47 AM	Staff Atty Bellamy PSC - witness Note: Sacre, Candace	Murphy So this currently has no effect on it; It would only come into effect if you had a third connection?
11:29:15 AM	Staff Atty Bellamy PSC - witness Note: Sacre, Candace	Murphy That's fine. I don't have any other questions about it, but in Requests for Information and I think even in here, you testified that it's not possible to break up the O&M costs associated with gas procurement. Is it possible to provide just the total gas procurement cost each year for the PBR years of 2019 through 2022 without the - any difference being broken out for what would be done differently if there was PBR versus there wasn't PBR?
11:31:00 AM	Staff Atty Bellamy PSC - witness Note: Sacre, Candace	Murphy And I would understand that. As a post-hearing data request, could you provide the cost for the department for PBR years '19 through '22? And if there's an estimate you have to make or an assumption or if there's some cost that's still in there that you couldn't remove, you can note that and kind of note how much that would be about.
11:31:19 AM	POST-HEARING DATA REQUEST Note: Sacre, Candace	STAFF ATTORNEY BELLAMY PSC - WITNESS MURPHY

	Note: Sacre, Candace	COSTS FOR THE DEPARTMENT FOR PBR YEARS 2019 THROUGH 2022
11:31:24 AM	Staff Atty Bellamy PSC - witness Note: Sacre, Candace	Murphy And then, lastly, I had one more question. Just, again, as a post-hearing data request, could you provide the net income, the PBR profit, and the PBR percentage of net income under the PBR for each year from 2010 to present? I think some of those have been provided, so it'd basically be the years before that, what has been provided already.
11:32:02 AM	Staff Atty Bellamy PSC - witness Note: Sacre, Candace	Murphy Yeah, basically, the net income or the net savings or expense from the PBR for each year from 2010 to present and then the percentage of that as to the total cost for each year from 2010 to present.
11:32:28 AM	Atty Ingram LG&E Note: Sacre, Candace	Let me interrupt just a second, Mr. Murphy.
11:32:30 AM	Atty Ingram LG&E Note: Sacre, Candace	Mr. Bellamy, I want to make sure - I've been assuming, but I probably shouldn't do that, that the hearing data requests that Staff is asking, will those be reduced to writing?
11:32:43 AM	Staff Atty Bellamy PSC Note: Sacre, Candace	We will put them in writing, so -
11:32:45 AM	Atty Ingram LG&E Note: Sacre, Candace	Okay. Thank you.
11:32:46 AM	Vice Chairman Cicero Note: Sacre, Candace	Absolutely. Everything will be established. Staff will provide it, and we will establish a date for it to be provided and your responses due.
11:32:54 AM	Atty Ingram LG&E Note: Sacre, Candace	Thank you, Your Honor.
11:32:57 AM	Staff Atty Bellamy PSC - witness Note: Sacre, Candace	Murphy So I can just clarify that in writing, sir, and, you know, you can answer it that way.
11:33:34 AM	Staff Atty Bellamy PSC - witness Note: Sacre, Candace	Murphy Back to 2010, if that would be possible.
11:33:41 AM	Staff Atty Bellamy PSC - witness Note: Sacre, Candace	Murphy Yes, let me just double-check and see. Yes, I believe that is it.
11:34:06 AM	Staff Atty Bellamy PSC - witness Note: Sacre, Candace	Murphy Yes, that's correct.
11:34:17 AM	Staff Atty Bellamy PSC - witness Note: Sacre, Candace	Murphy And that is what we wanted, yes.
11:34:19 AM	POST-HEARING DATA REQUEST Note: Sacre, Candace Note: Sacre, Candace	STAFF ATTY BELLAMY PSC - WITNESS MURPHY NET INCOME/PBR PROFIT AND PBR PERCENTAGE OF NET INCOME UNDER THE PBR FROM 2010 TO PRESENT
11:34:24 AM	Staff Atty Bellamy PSC Note: Sacre, Candace	And I don't have any other questions. Thank you very much for your time.
11:34:29 AM	Vice Chairman Cicero Note: Sacre, Candace	Chairman Schmitt?
11:34:30 AM	Chairman Schmitt Note: Sacre, Candace	I have no questions.
11:34:32 AM	Vice Chairman Cicero Note: Sacre, Candace	Commissioner Mathews? (Click on links for further comments.)
11:34:36 AM	Camera Lock Comm Wide Activated	

11:34:57 AM Commissioner Mathews
Note: Sacre, Candace I am. I don't have any questions.

11:34:58 AM Camera Lock Deactivated

11:35:05 AM Vice Chairman Cicero - witness Murphy
Note: Sacre, Candace Examination. Okay, so I only have a couple of questions, and it has to do with the savings associated with the transmission. I think you said you have two providers, and you put out a bid, request for proposal, and the bid came in, and you received a discount that ended up in - approximately out to 2026, savings below the FERC rate which is generating about two and a half million dollars a year, and, of that two and a half million, taking the last percentage I see out there, about 38 percent, that generates about a million dollars a year for LG&E. Is that right? Is my calculation right?

11:35:08 AM Camera Lock Comm Wide Activated

11:36:03 AM Vice Chairman Cicero - witness Murphy
Note: Sacre, Candace The TIF?

11:36:07 AM Camera Lock Deactivated

11:36:10 AM Vice Chairman Cicero - witness Murphy
Note: Sacre, Candace Well, I'm looking at the Year '22, the TIF, two-point-four-five-six million, yes, what exhibit that happens to be, but it's basically two \$207,000 or \$216,700, or somewhere around that number, per year that's being generated - not per month, per year that's being generated because of a discount off the FERC rate that you've entered into with one of your suppliers, is that right?

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11:36:52 AM Vice Chairman Cicero - witness Murphy
Note: Sacre, Candace So, in all of your Responses, you've talked about the risk that the company takes but wouldn't take in the future if there wasn't an incentive or, at least, it would be more difficult to be justified. Is that basically an accurate statement?

11:36:53 AM Camera Lock Comm Wide Activated

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11:37:17 AM Vice Chairman Cicero - witness Murphy
Note: Sacre, Candace Well, let me take it a step further, and we'll go from there. When this agreement was entered into with a discount below the FERC on the contract that you have out of only one - one of two potential suppliers, you entered into that agreement, which I would think putting a request for proposal out to bid to only two suppliers would be in the normal course of a management's business process, and so you put out this bid, and you receive the rate below FERC's benchmark, and you're now generating approximately a million dollars a year, and I'm trying to figure out what the extra resources were required or what the risk was that generates this extra million dollars a year in savings.

11:37:18 AM Camera Lock Comm Wide Activated

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11:40:53 AM Vice Chairman Cicero - witness Murphy
Note: Sacre, Candace You entered into a long-term agreement, is that right, through 2026?

11:40:54 AM Camera Lock Comm Wide Activated

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11:41:01 AM Vice Chairman Cicero - witness Murphy
Note: Sacre, Candace 2023, I'm sorry, so you've entered into an agreement through 2023, correct?

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11:41:13 AM Vice Chairman Cicero - witness Murphy
Note: Sacre, Candace And does the discount in the contract change, or is it set?

11:41:13 AM Camera Lock Comm Wide Activated

11:41:42 AM Vice Chairman Cicero - witness Murphy
Note: Sacre, Candace And they're declining because of what factor?

11:41:42 AM Camera Lock Deactivated

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11:43:08 AM Vice Chairman Cicero - witness Murphy
Note: Sacre, Candace Okay, so known and measurable changes due to the FERC ruling, is that correct?

11:43:16 AM Camera Lock Comm Wide Activated

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11:43:24 AM Vice Chairman Cicero - witness Murphy
Note: Sacre, Candace So FERC mandated a 13-percent decrease over the next three years. What are the surcharges that you may be subject to?

11:43:26 AM Camera Lock Comm Wide Activated

11:43:33 AM Camera Lock Deactivated

11:44:18 AM Vice Chairman Cicero - witness Murphy
Note: Sacre, Candace Okay, so if I take two-point - you'd still be generating about (inaudible) million dollars a year even if the change was 20 percent for an activity that occurred I don't know how long ago for asking for a discount from one of - well, from two suppliers, and you ended up - you're generating two million times point-three-eight, so you're still going to generate about \$750,000 for shareholders for this activity, and that's going forward with all of the changes that you've indicated on the rate due to a FERC ruling and due to potential surcharges. I was generous. I said -

11:44:21 AM Camera Lock Comm Wide Activated

11:45:09 AM Camera Lock Deactivated

11:45:11 AM Vice Chairman Cicero - witness Murphy
Note: Sacre, Candace That's all right. They're the numbers that I calculated, and it's just for a matter of estimating. My other comment is the only risk that was taken by LG&E to generate this is they put out a request for proposal. There's no risk. There's no chance of you losing money on it. That risk doesn't exist.

11:45:12 AM Camera Lock Comm Wide Activated

11:45:33 AM Camera Lock Deactivated

11:45:58 AM Vice Chairman Cicero - witness Murphy
Note: Sacre, Candace All right. I'm only going to make two other comments. With regard to the O&M and the Tennessee Pipeline costs, are those not included in rates at the current time? Don't you - since you already know you're purchasing this gas from that location, have you not built into rates the O&M costs?

11:45:58 AM Camera Lock Comm Wide Activated

11:46:23 AM Camera Lock Deactivated

11:46:26 AM Vice Chairman Cicero - witness Murphy
Note: Sacre, Candace The O&M associated with purchasing from that location. I think you alluded to that there were certain O&M costs that you incurred as a result of utilizing the Tennessee Pipeline, a different location.

11:46:28 AM Camera Lock Comm Wide Activated

11:46:41 AM Camera Lock Deactivated

11:47:16 AM Vice Chairman Cicero - witness Murphy
Note: Sacre, Candace Well, for the record, we've already established, I think, for my benefit, how you're doing it and the risk associated with it. I'm going to use your casino example, and you said, if you were limited by a \$50 win, that you would stop once you hit \$50, but usually people that go into casinos use their own money. In this case, LG&E gets to utilize somebody else's money. There's no cost to them for this mechanism to be in place, so I understand your comment, but it's not exactly the same scenario.

11:47:17 AM Camera Lock Comm Wide Activated

11:47:49 AM Camera Lock Deactivated

11:47:58 AM Vice Chairman Cicero - witness Murphy
Note: Sacre, Candace With all due respect, LG&E has a monopoly over their customers. It's a different scenario totally.

11:47:58 AM Camera Lock Comm Wide Activated

11:48:08 AM Camera Lock Deactivated

11:48:11 AM Vice Chairman Cicero
Note: Sacre, Candace Thank you, Mr. Murphy. I have no other questions. Mr. Ingram, do you have some redirect?

11:48:13 AM Camera Lock Comm Wide Activated

11:48:20 AM Atty Ingram LG&E
Note: Sacre, Candace Yes, Your Honor, just a little bit.

11:48:21 AM Camera Lock Deactivated

11:48:25 AM Atty Ingram LG&E - witness Murphy
Note: Sacre, Candace Redirect Examination. Mr. Murphy, I know, in response to Mr. Bellamy's question about the expenses in gas procurement that are embedded in customer rates that you don't know the exact numbers there, but can you say whether the expenses of your department would change regardless of whether there was a PBR mechanism for gas procurement?

11:49:03 AM Atty Ingram LG&E - witness Murphy
Note: Sacre, Candace Okay, so does that mean customers can pay nothing additional and still receive the savings that they've been receiving all these years under the PBR mechanism?

11:49:38 AM Atty Ingram LG&E - witness Murphy
Note: Sacre, Candace Did you watch the hearing a few weeks ago in Columbia PBR mechanism case?

11:49:49 AM Atty Ingram LG&E - witness Murphy
Note: Sacre, Candace And do you recall there was discussion in that hearing and I think there was maybe a reference to it in today's hearing about the level of incentive that is appropriate for a utility to receive to encourage the savings that are possible out there?

11:50:14 AM Atty Ingram LG&E - witness Murphy
Note: Sacre, Candace Do you recall that, in examining the level of that incentive, one of the pieces of data that one might look at is of the PBR savings that are achieved as a percentage of the utility's net income?

11:51:06 AM Atty Ingram LG&E - witness Murphy
Note: Sacre, Candace Is that on an after-tax basis, Mr. Murphy?

11:52:01 AM Atty Ingram LG&E
Note: Sacre, Candace Your Honor, Mr. Murphy has already covered, you know, anything that I might have on a redirect, so I have no further redirect from him.

11:52:10 AM Vice Chairman Cicero
Note: Sacre, Candace Mr. West, do you have any other questions?

11:52:10 AM Camera Lock Comm Wide Activated

11:52:13 AM	Asst Atty General West Note: Sacre, Candace	I do not have any further questions of this witness.
11:52:14 AM	Camera Lock Deactivated	
11:52:18 AM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Bellamy, are you complete?
11:52:18 AM	Camera Lock Comm Wide Activated	
11:52:19 AM	Staff Atty Bellamy PSC Note: Sacre, Candace	No further questions. Thank you.
11:52:21 AM	Vice Chairman Cicero Note: Sacre, Candace	Okay, Chairman?
11:52:23 AM	Chairman Schmitt Note: Sacre, Candace	No questions.
11:52:24 AM	Vice Chairman Cicero Note: Sacre, Candace	May this witness be excused?
11:52:27 AM	Vice Chairman Cicero Note: Sacre, Candace	The witness is excused.
11:52:30 AM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Ingram, do you have another witness?
11:52:34 AM	Atty Ingram LG&E Note: Sacre, Candace	I do, Your Honor. The company's other witness is Ms. Pam Jaynes. Now, Mr. Murphy did not defer any of the questions that he received to her, so I'm not sure if there are any questions for her, but, certainly, she is ready to testify if there are questions for her.
11:52:42 AM	Camera Lock Deactivated	
11:52:51 AM	Vice Chairman Note: Sacre, Candace	Let's swear her in and see if anyone has any questions, and, if not, then we can just move forward.
11:52:53 AM	Camera Lock Comm Wide Activated	
11:52:59 AM	Atty Ingram LG&E Note: Sacre, Candace	Thank you, call Ms. Pam Jaynes.
11:53:09 AM	Camera Lock Deactivated	
11:53:13 AM	Atty Ingram LG&E Note: Sacre, Candace	Witness is sworn.
11:53:21 AM	Camera Lock Comm Wide Activated	
11:53:23 AM	Camera Lock Deactivated	
11:53:24 AM	Atty Ingram LG&E - witness Jaynes Note: Sacre, Candace	Thank you. Mr. Ingram, you may ask.
11:53:25 AM	Camera Lock Comm Wide Activated	
11:53:27 AM	Atty Ingram LG&E - witness Jaynes Note: Sacre, Candace	Direct Examination. Ms. Jaynes, would you please state your full name for the record?
11:53:28 AM	Camera Lock Deactivated	
11:53:34 AM	Atty Ingram LG&E - witness Jaynes Note: Sacre, Candace	And could you tell us what your job title is and job address is, please?
11:53:49 AM	Atty Ingram LG&E - witness Jaynes Note: Sacre, Candace	And you did not file any direct testimony in this case, did you?
11:53:56 AM	Atty Ingram LG&E - witness Jaynes Note: Sacre, Candace	But you were identified on a number of data requests that were issued to the company, is that correct?
11:54:04 AM	Atty Ingram LG&E - witness Jaynes Note: Sacre, Candace	And, if I were to ask you the same questions here today that were asked of you in those data requests, would your responses be the same?

11:54:15 AM	Atty Ingram LG&E Note: Sacre, Candace	Ms. Jaynes is available for cross examination, Your Honor.
11:54:18 AM	Vice Chairman Cicero Note: Sacre, Candace	Thank you. Mr. West?
11:54:21 AM	Asst Atty General West Note: Sacre, Candace	I have no questions.
11:54:22 AM	Vice Chairman Cicero Note: Sacre, Candace	Mr. Bellamy?
11:54:24 AM	Staff Atty Bellamy PSC Note: Sacre, Candace	Commission Staff has no questions.
11:54:27 AM	Vice Chairman Cicero Note: Sacre, Candace	Chairman Schmitt?
11:54:28 AM	Chairman Schmitt Note: Sacre, Candace	No questions.
11:54:29 AM	Vice Chairman Cicero Note: Sacre, Candace	Commissioner Mathews?
11:54:30 AM	Commissioner Mathews Note: Sacre, Candace	I have no questions.
11:54:32 AM	Vice Chairman Cicero Note: Sacre, Candace	I have no questions. I presume, Mr. Ingram, you have no questions as well?
11:54:38 AM	Atty Ingram LG&E Note: Sacre, Candace	I have no redirect.
11:54:40 AM	Vice Chairman Cicero Note: Sacre, Candace	Okay, thank you, Ms. Jaynes, for you to be sworn in and let us get your picture on the record. You may be excused.
11:54:50 AM	Vice Chairman Cicero Note: Sacre, Candace	So, at this point, I don't think there was any exhibits, is that correct? Nobody had any exhibits, right, Mr. Bellamy?
11:55:02 AM	Staff Atty Bellamy PSC Note: Sacre, Candace	No, sir.
11:55:03 AM	Vice Chairman Cicero Note: Sacre, Candace	All right, so there were some post-hearing data requests, and, Mr. Bellamy, can you have those ready by June 29th?
11:55:14 AM	Staff Atty Bellamy PSC Note: Sacre, Candace	Yes.
11:55:15 AM	Vice Chairman Cicero Note: Sacre, Candace	Okay, and, Mr. Ingram, can you respond by July 9th?
11:55:21 AM	Atty Ingram LG&E Note: Sacre, Candace	Yes, Your Honor.
11:55:23 AM	Vice Chairman Cicero Note: Sacre, Candace	Okay, and I don't - do you plan on filing any type of a brief, Mr. Ingram?
11:55:29 AM	Atty Ingram LG&E Note: Sacre, Candace	Well, I think what we'd like to do, if it's okay with the Commission, is at least put in a deadline for such a brief. We may or may not file one, but, if it suits, we'd like to at least have a deadline, and then we will let Mr. Bellamy know just as soon as we can whether we think we will file a brief. Is that suitable?
11:55:49 AM	Vice Chairman Cicero Note: Sacre, Candace	That's suitable. Chairman, you have the calendar, there. If they do the July 9th, what's a good date for - July 9th is a Thursday. How long do you think you need to file a brief?

11:56:06 AM	Atty Ingram LG&E Note: Sacre, Candace	Whatever (inaudible) the Commission, we'll get it done. It doesn't matter. You all can pick the date.
11:56:12 AM	Vice Chairman Cicero Note: Sacre, Candace	July 16th, a week?
11:56:14 AM	Atty Ingram LG&E Note: Sacre, Candace	Sure.
11:56:18 AM	Vice Chairman Cicero Note: Sacre, Candace	Is that acceptable?
11:56:21 AM	Atty Ingram LG&E Note: Sacre, Candace	Yes, Your Honor.
11:56:23 AM	Vice Chairman Cicero Note: Sacre, Candace	Okay, so we'll do it for July 16th. Okay, is there any other business, or are we all set?
11:56:33 AM	Atty Ingram LG&E Note: Sacre, Candace	The company has nothing further, Your Honor.
11:56:35 AM	Vice Chairman Cicero Note: Sacre, Candace	Okay, thank you. That being the case, then this meeting is adjourned. Thank you very much everyone.
11:56:44 AM	Session Ended	

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