

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE)	
COMMISSION OF THE ENVIRONMENTAL)	
SURCHARGE MECHANISM OF LOUISVILLE GAS)	CASE NO.
AND ELECTRIC COMPANY FOR THE SIX-MONTH)	2013-00437
BILLING PERIOD ENDING OCTOBER 31, 2013)	

DIRECT TESTIMONY OF

ROBERT M. CONROY
DIRECTOR - RATES
LG&E AND KU SERVICES COMPANY

Filed: January 23, 2014

1 **Q. Please state your name, title, and business address.**

2 A. My name is Robert M. Conroy. I am the Director – Rates for LG&E and KU
3 Services Company, which provides services to Louisville Gas and Electric Company
4 (“LG&E” or “Company”) and Kentucky Utilities Company (“KU”) (collectively “the
5 Companies”). My business address is 220 West Main Street, Louisville, Kentucky,
6 40202. A complete statement of my education and work experience is attached to this
7 testimony as Appendix A.

8 **Q. Have you previously testified before this Commission?**

9 A. Yes. I have previously testified before this Commission in proceedings concerning
10 the Companies’ most recent rate cases, fuel adjustment clauses, and environmental
11 cost recovery (“ECR”) surcharge mechanisms.

12 **Q. What is the purpose of this proceeding?**

13 A. The purpose of this proceeding is to review the past operation of LG&E’s
14 environmental surcharge during the six-month billing period ending October 31, 2013
15 (expense months of March 2013 through August 2013) and to determine whether the
16 surcharge amounts collected during the period are just and reasonable.

17 **Q. What is the purpose of your testimony?**

18 A. The purpose of my testimony is to summarize the operation of LG&E’s
19 environmental surcharge during the billing period under review, demonstrate that the
20 amount collected during the period was just and reasonable, present and discuss
21 LG&E’s proposed adjustment to the Environmental Surcharge Revenue Requirement
22 based on the operation of the surcharge during the period and explain how the
23 environmental surcharge factors were calculated during the period under review.

1 Q. **Please summarize the operation of the environmental surcharge for the billing**
2 **period included in this review.**

3 A. LG&E billed an environmental surcharge to its customers from May 1, 2013 through
4 October 31, 2013. For purposes of the Commission's examination in this case, the
5 monthly LG&E environmental surcharges are considered as of the six-month billing
6 period ending October 31, 2013. In each month of the six-month period under review
7 in this proceeding, LG&E calculated the environmental surcharge factors in
8 accordance with its ECR Tariff and the requirements of the Commission's previous
9 orders concerning LG&E's environmental surcharge. The calculations were made in
10 accordance with the Commission-approved monthly forms and filed with the
11 Commission ten days before the new monthly charge was billed by the Company.

12 Q. **What costs were included in the calculation of the environmental surcharge**
13 **factors for the billing period under review?**

14 A. The capital and operating costs included in the calculation of the environmental
15 surcharge factors for the billing period under review were the costs incurred each
16 month by LG&E from March 2013 through August 2013, as detailed in the
17 attachment in response to Question No. 2 of the Commission Staff's Request for
18 Information, incorporating all required revisions.

19 The monthly environmental surcharge factors applied during the billing period
20 under review were calculated consistent with the Commission's Orders in LG&E's
21 previous applications to assess or amend its environmental surcharge mechanism and
22 plan, as well as Orders issued in previous review cases. The monthly environmental

1 surcharge reports filed with the Commission during this time reflect the various
2 changes to the reporting forms ordered by the Commission from time to time.

3 **Q. Has the Commission recently approved changes to LG&E's ECR Compliance**
4 **Plan?**

5 A. Yes. In Case No. 2011-00162, the Commission approved LG&E's 2011 ECR
6 Compliance Plan that included two new projects and associated operation and
7 maintenance costs, and approved the reporting of operation and maintenance costs
8 associated with sorbent injection approved with the 2006 Plan for Mill Creek Units 3
9 and 4 and Trimble County Unit 1 as part of the 2011 Plan. Pursuant to the
10 Commission's December 15, 2011 Order approving the Settlement Agreement in
11 Case No. 2011-00162, LG&E began including the approved projects in the monthly
12 filing for the December 2011 expense month that was billed in February 2012 with
13 separate authorized rates of return for the Pre-2011 and 2011 ECR Plans. In addition,
14 the Commission approved the use of net (non-fuel) revenues to calculate the
15 jurisdictional revenue requirement for non-residential customers defined as Group 2
16 in the ECR Tariff. The use of net revenues for Group 2 customers was implemented
17 in Case No. 2011-00232 as discussed below.

18 In Case No. 2012-00222, LG&E's most recent rate case, the Commission
19 approved the elimination of LG&E's 2005 and 2006 ECR Compliance Plans (with the
20 exception of Project 17 related to Emission Allowances) from the monthly
21 environmental surcharge filings and reset the return on equity to be used in the
22 monthly environmental surcharge filings. Pursuant to the Commission's December
23 20, 2012 Order in that case, the changes were implemented with the January 2013

1 expense month. The approved return on equity is used in this proceeding to establish
2 the overall rate of return on capital to be used to calculate the environmental
3 surcharge as discussed later in this testimony.

4 **Q. Has the Commission recently approved changes to the environmental surcharge**
5 **mechanism and the monthly ES forms?**

6 A. Yes. In Case No. 2011-00232, LG&E's previous ECR two-year review, the
7 Commission implemented the use of net revenues to calculate the jurisdictional
8 revenue requirement for non-residential customers defined as Group 2 in the ECR
9 Tariff in conjunction with the ECR Roll-in and revisions to the monthly reporting
10 forms to reflect the implementation of Group 1 and Group 2 billing factors. Pursuant
11 to the Commission's January 31, 2012 Order in that case, the changes were
12 implemented with the January 2012 expense month that was billed in March 2012.

13 In Case No. 2013-00243, LG&E's most recent ECR two-year review, the
14 Commission approved the ECR Roll-in, revisions to the monthly ES forms to reflect
15 the elimination of LG&E's 2005 and 2006 ECR Compliance Plans and the use of an
16 overall authorized rate of return for all ECR Plans.

17 **Q. Are there any changes or adjustments in Rate Base from the originally filed**
18 **expense months?**

19 A. No. During the period under review, there were no changes to Rate Base from the
20 originally filed billing months as summarized in LG&E's response to the
21 Commission Staff's Request for Information, Question No. 1. In addition, there were
22 no changes identified as a result of preparing responses to the requests for
23 information in this review.

1 **Q. Are there any changes necessary to the jurisdictional revenue requirement**
2 **(E(m))?**

3 A. Yes. Adjustments to E(m) are necessary for compliance with the Commission's
4 Order in Case No. 2000-00386, to reflect the actual changes in the overall rate of
5 return on capitalization that is used in the determination of the return on
6 environmental rate base. Pursuant to the terms of the Settlement Agreement
7 approving the 2011 ECR Plan, LG&E calculated the short- and long-term debt rate
8 using average daily balances and daily interest rates in the calculation of the overall
9 rate of return true-up adjustment for the six-month period ending October 31, 2013.
10 The details of and support for this calculation are shown in LG&E's response to
11 Question No. 1 of the Commission Staff's Request for Information.

12 **Q. Are there corrections to information provided in the monthly filings during the**
13 **billing period under review?**

14 A. No.

15 **Q. As a result of the operation of the environmental surcharge during the billing**
16 **period under review, is an adjustment to the revenue requirement necessary?**

17 A. Yes. LG&E experienced an over-recovery of \$1,309,850 for the billing period
18 ending October 31, 2013. LG&E's response to Question No. 2 of the Commission
19 Staff's Request for Information shows the calculation of the over-recovery. An
20 adjustment to the revenue requirement is necessary to reconcile the collection of past
21 surcharge revenues with actual costs for the billing period under review.

22 **Q. Has LG&E identified the causes of the over-recovery during the billing period**
23 **under review?**

1 A. Yes. LG&E has identified the components that make up the over-recovery during the
 2 billing period under review. The components are (1) changes in overall rate of return
 3 as previously discussed and (2) the use of 12-month average revenues to determine
 4 the billing factor. The details and support of the components that make up the over-
 5 recovery during the billing period under review are shown in LG&E's response to
 6 Question No. 2 of the Commission Staff's Request for Information.

7 **Q. Please explain how the function of the ECR mechanism contributes to the over-**
 8 **recovery in the billing period under review.**

9 A. The use of 12-month average revenues to calculate the monthly billing factors and
 10 then applying those same billing factors to the actual monthly revenues will result in
 11 an over- or under-collection of ECR revenues. The table below shows a comparison
 12 of the 12-month average revenues used in the monthly filings to determine the ECR
 13 billing factors and the actual revenues to which the ECR billing factors were applied
 14 in the billing month.

Expense Month	12-Month Average Revenues	Billing Month	Actual Revenues Subject to ECR Billing Factors
March 2013	\$ 62,527,224	May 2013	\$ 55,438,175
April 2013	63,011,610	June 2013	67,093,637
May 2013	62,974,313	July 2013	78,458,956
June 2013	62,788,952	August 2013	78,260,146
July 2013	62,258,443	September 2013	76,036,443
August 2013	62,110,151	October 2013	62,849,267
*The 12-month average revenues and the Actual Revenues subject to ECR Billing Factors reflect net revenues for Group 2.			

15
 16 Generally, an under-recovery will occur when actual revenues for the billing month
 17 are less than the 12-month average revenues used for the expense month. Likewise,

1 an over-recovery will usually occur when actual revenues for the billing month are
2 greater than the 12-month average revenues used for the expense month.

3 **Q. What kind of adjustment is LG&E proposing in this case as a result of the**
4 **operation of the environmental surcharge during the billing period?**

5 A. LG&E is proposing that the over-recovery be distributed over the two months
6 following the Commission's Order in this proceeding. Specifically, LG&E
7 recommends that the Commission approve a decrease to the Environmental Surcharge
8 Revenue Requirement of \$654,925 for two months, beginning in the second full
9 billing month following the Commission's Order in this proceeding. This method is
10 consistent with the method of implementing previous over- or under-recovery
11 positions in prior ECR review cases.

12 **Q. What is the bill impact on a residential customer for the proposed distribution of**
13 **the over-recovery?**

14 A. The inclusion of the distribution reflecting the over-recovery position in the
15 determination of the ECR billing factor will decrease the billing factor by
16 approximately 0.80%. For a residential customer using an average of 987 kWh per
17 /month, the impact of the adjusted ECR billing factor would be a decrease of
18 approximately \$0.75 per month for two months (using rates and adjustment clause
19 factors in effect for the November 2013 billing month). The details of and support for
20 this calculation are shown in LG&E's response to Question No. 6 of the Commission
21 Staff's Request for Information.

22 **Q. What rate of return is LG&E proposing to use for all ECR Plans upon the**
23 **Commission's Order in this proceeding?**

1 A. LG&E is recommending an overall rate of return on capital of 10.43%, including the
2 currently approved 10.25% return on equity and adjusted capitalization, to be used to
3 calculate the environmental surcharge. This is based on capitalization as of August
4 31, 2013 and the Commission's Order of December 20, 2012 in Case No. 2012-
5 00222. Please see the response and attachment to Commission Staff's Request for
6 Information Question No. 5 following this testimony.

7 **Q. What is your recommendation to the Commission in this case?**

8 A. LG&E makes the following recommendations to the Commission in this case:

9 a) The Commission should approve the proposed decrease to the Environmental
10 Surcharge Revenue Requirement of \$654,925 for two months beginning in the
11 second full billing month following the Commission's Order in this
12 proceeding;

13 b) The Commission should determine the environmental surcharge amount for
14 the six-month billing period ending October 31, 2013 to be just and
15 reasonable;

16 c) The Commission should approve the use of an overall rate of return on capital
17 of 10.43%, using a return on equity of 10.25%, beginning in the second full
18 billing month following the Commission's Order in this proceeding;

19 **Q. Does this conclude your testimony?**

20 A. Yes.

APPENDIX A

Robert M. Conroy

Director - Rates
LG&E and KU Services Company
220 West Main Street
Louisville, Kentucky 40202
(502) 627-3324

Education

Masters of Business Administration,
Indiana University (Southeast campus), December 1998. GPA: 3.9.
Bachelor of Science in Electrical Engineering,
Rose Hulman Institute of Technology, May 1987. GPA: 3.3.

Essentials of Leadership, London Business School, 2004.

Center for Creative Leadership, Foundations in Leadership program, 1998.

Registered Professional Engineer in Kentucky, 1995.

Previous Positions

Manager, Rates	Apr. 2004 – Feb. 2008
Manager, Generation Systems Planning	Feb. 2001 – Apr. 2004
Group Leader, Generation Systems Planning	Feb. 2000 – Feb. 2001
Lead Planning Engineer	Oct. 1999 – Feb. 2000
Consulting System Planning Analyst	Apr. 1996 – Oct. 1999
System Planning Analyst III & IV	Oct. 1992 – Apr. 1996
System Planning Analyst II	Jan. 1991 – Oct. 1992
Electrical Engineer II	Jun. 1990 – Jan. 1991
Electrical Engineer I	Jun. 1987 – Jun. 1990

Professional/Trade Memberships

Registered Professional Engineer in Kentucky, 1995.