

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY)
UTILITES COMPANY FOR AN) **CASE NO. 2014-00371**
ADJUSTMENT OF ITS ELECTRIC)
RATES)

RESPONSE OF THE KROGER CO.
TO
REQUEST FOR INFORMATION
OF
KENTUCKY PUBLIC SERVICE COMMISSION .

April 3, 2015

KENTUCKY UTILITIES COMPANY

CASE NO. 2014-00371

**Response to Request for Information of
Kentucky Public Service Commission
Date April 3, 2015**

Q-1 Refer to the Prefiled direct Testimony of Neal Townsend (“Townsend”), page 9, lines 12-89. Explain why the forecasted core inflation rates for 2015 and 2016 from two federal government sources, which range from 1.5-2.2 percent, should not be considered supportive of the 2.0 percent inflation rate used by Louisville Gas and Electric Company (“LG&E”) to derive test-year non-labor operation and maintenance (“O&M”) expenses.

A-1 Mr. Townsend does not dispute that some level of inflation may occur in 2015 and 2016. However, Mr. Townsend recommends that absent an unusually high inflationary period (which currently does not exist), forecasted inflation should not be included in the rate setting process. As noted in his testimony, Mr. Townsend’s recommendation to not include generic inflation is based on fundamental policy considerations.

To reiterate the testimony, including an estimate for inflation in an administratively-determined price, especially given the role electricity plays in today’s society, can result in a self-fulfilling prophecy. In other words, including inflation in the determination of electricity prices could actually cause inflation to occur. Secondly, the use of a forecasted test period is generally intended to provide a utility a better opportunity to recover its capital investments. The utilization of a forecasted test period does not justify inflating baseline costs through application of an inflation factor.

Q-2 Refer to the Townsend Testimony, page 8, lines 20-22, and page 10, lines 1-2.

a. Explain whether Mr. Townsend has reviewed LG&E's historical levels of non-labor O&M expenses in order to determine the amount by which they have changed (increase or decrease) in the past.

b. Explain whether it is Mr. Townsend's belief that non-labor O&M expenses, compared to other types of expenses, tend to remain stagnant rather than change from year to year.

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a. As noted in his testimony, in preparing his adjustment Mr. Townsend attempted to exclude any of KU's adjustments that represent known and measurable changes to KU's historical test period, in order to isolate the amount of generic inflation not tied to more specific factors. Further examination of KU's historical levels of non-labor O&M expenses to determine the extent to which they have changed or the underlying reasons (inflation or other causes) was not necessary to address the policy considerations advanced in Mr. Townsend's testimony.

b. Mr. Townsend understands that a utility's expenses, including non-labor O&M expenses, change from year to year. However, with the exception of known and measurable changes, it is difficult to predict the direction (up or down) or the underlying causes (inflation, efficiency, etc.) of future expense deviations. As expenses change over time, it may be necessary to conduct a general rate case process to reset electricity rates to allow the utility the opportunity to earn its authorized rate of return.

CERTIFICATE

It is hereby certified, this the 3rd day of April, 2015, that the attached Response to the Request for Information of the Kentucky Public Service Commission on behalf of The Kroger Co., is a true and correct copy of the document being filed in paper medium; that the electronic filing has been transmitted to the Commission on April 3, 2015; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; that an original and one copy of this document, including the verification of Neal Townsend, is being mailed to the Commission for filing on April 3, 2015; and that an electronic notification of the electronic filing will be provided to all counsel listed on the Commission's service list in this proceeding.



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