

**Commonwealth of Kentucky
Before the Public Service Commission**

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND)	
ELECTRIC COMPANY FOR A DECLARATORY)	Case No.
ORDER REGARDING THE PROPER METHOD)	2016-00317
OF MUNICIPAL FRANCHISE FEE RECOVERY)	

**REBUTTAL TESTIMONY OF
ALLEN R. NEALE
ON BEHALF OF THE
LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT**

Exhibit ARN-1R

June 16, 2017

PUBLIC VERSION

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1 **I. QUALIFICATIONS AND SUMMARY OF TESTIMONY**

2
3 **Q. Mr. Neale, please identify yourself for the record.**

4 A. My name is Allen R. Neale. I am a Consultant working in conjunction with Daymark
5 Energy Advisors (“Daymark”). My business address is Allen R. Neale c/o Daymark
6 Energy Advisors, One Washington Mall, 9th Floor, Boston, MA 02108.¹

7
8 **Q. On whose behalf are you testifying in this proceeding?**

9 A. I am submitting rebuttal testimony on behalf of the Louisville/Jefferson County Metro
10 Government (“Louisville Metro”) based on my review of the supplemental response to
11 discovery filed by Louisville Gas and Electric Company (“LG&E” or the “Company”) with the
12 Kentucky Public Service Commission (the “KY PSC” or “Commission”) in the
13 matter of the application for a Declaratory Order Regarding the Proper Method of
14 Municipal Franchise Fee Recovery, which has been docketed as Case No. 2016-00317
15 (the “Filing”).

16
17 **Q. Have you filed testimony in this case before?**

18 A. Yes. I filed direct testimony in this case on March 14, 2017. My direct testimony
19 summarized my expert witness experience and qualifications and included a copy of my
20 resume as Exhibit ARN-1.

21
22 **Q. Please summarize the scope of your rebuttal testimony.**

23 A. I have been asked to review the March 14, 2017 testimonies of LG&E witnesses Lonnie
24 E. Bellar and Robert M. Conroy; the April 7, 2017 LG&E responses to Louisville Metro
25 and Commission requests for information; and the May 26, 2017, LG&E Supplemental
26 responses to two of Louisville Metro’s discovery questions originally submitted as part of
27 Louisville Metro’s Request for Information, filed on March 24, 2017. The LG&E
28 supplemental responses to Louisville Metro discovery Question Nos. 1 and 12 included a
29 Confidential Attachment containing two system maps (collectively the “LG&E

¹ As of June 23, 2017 Daymark Energy Advisors will move the location of its headquarters to 370 Main Street, Suite 325, Worcester, MA 01608.

30 Supplemental Response”). Based on my review of the maps included in the Confidential
31 Attachment, I have updated my opinion whether the gas supply received at the citygate
32 interconnections between LG&E and the interstate pipeline transmission system for
33 redelivery to LG&E’s customers located within Louisville Metro also serves additional
34 customers within LG&E’s service territory. Further, my revised opinion allows me to
35 provide an additional recommendation for the Commission to consider regarding the
36 appropriate method of franchise fee recovery that is the subject of this Filing.

37
38 I understand the Commission will also consider whether it is appropriate for LG&E to
39 directly pass the cost of a franchise fee onto LG&E customers as a utility bill line item.
40 To my knowledge, this determination will be based purely on analysis and interpretation
41 of Kentucky law. Thus, any questions related to this legal issue are outside the scope of
42 my expertise and my representation of Louisville Metro, and will not be addressed in my
43 testimony.

44
45 **Q. What conclusions do you reach based on your review of these supplemental**
46 **responses?**

47 A. Based on my review of the original Filing and the LG&E Supplemental Response, I
48 conclude and recommend the following:

- 49 1. Gas supply received via the LG&E citygate interconnections with the Texas Gas
50 Transmission System (Texas Gas) utilize the right of way corridor (ROW) within
51 Louisville Metro in order to serve customers located throughout Jefferson County
52 and the counties of Bullitt, Nelson and Shelby;
- 53
54 2. The Company has installed adequately sized pipes throughout its service territory
55 to provide reliable service to all customers, regardless of in which county they
56 reside, with the result that if flow were halted at certain points within the
57 Louisville Metro ROW, customers residing both in the smaller municipalities
58 within Jefferson County and even those customers residing outside Jefferson
59 County would not receive gas supply; and as a result,

- 62 3. The Commission should:
- 63 i. Recognize that all customers benefit from the interconnected operation of
- 64 the LG&E transmission and distribution system, which includes the design
- 65 and operation of the Company's transmission and distribution system
- 66 within the Louisville Metro ROW;
- 67 ii. Recognize that the franchise fee is collected as compensation for
- 68 providing services related to the operation and maintenance of the
- 69 transmission and distribution pipelines the Company has installed in a
- 70 municipal right of way (ROW) rather than to pay for other municipal
- 71 services, and therefore;
- 72 iii. Require the Louisville Metro gas franchise fee to apply to all LG&E gas
- 73 customers within Jefferson County;
- 74

75 **II. SCOPE OF REVIEW**

76 **Q. Please summarize the information you reviewed up to this point in this proceeding.**

77 **A.** I have reviewed the relevant information for this proceeding, which includes the

78 following non-confidential documents:

- 79 - Louisville Metro Complaint, Exhibit 1, Metro Council Districts in Jefferson
- 80 County,
- 81 - Louisville Metro Complaint, Exhibit 2, Incorporated Cities in Jefferson County,
- 82 - Louisville Metro Complaint, Exhibit 3, Incorporated Cities and Metro Council,
- 83 Districts in Jefferson County (i.e., the information contained in Exhibits 1 and 2
- 84 shown on the same map),
- 85 - Louisville Metro Complaint, Exhibit 4, Natural Gas Distribution Service Areas
- 86 (within the state of Kentucky),
- 87 - Louisville Gas and Electric P.S.C. Gas No. 10, Original Sheet 90, Adjustment
- 88 Clause, Franchise Fee, Applicability and Monthly Charge; and
- 89 - Testimony and data responses of LG&E witnesses.
- 90

91

92 I also have reviewed, subsequent to executing a non-disclosure agreement, the following

93 three CONFIDENTIAL documents:

- 94 - Addendum to Louisville Metro Amended Complaint, Jefferson County Gas Mains
95 (LGE map.pdf),
96 - Addendum to Louisville Metro Amended Complaint, Gas Transmission in
97 Kentucky, Kentucky Department of Economic Development, Frankfort, 1984
98 (Gas_Transmission_1984_Map.pdf),
99 - The Confidential Attachments to LG&E's initial data responses; and
100 - The Confidential Attachment to LG&E's supplemental response to Louisville
101 Metro's data requests.
102

103 **Q. Please review why your analysis is focused on gas supply flow through the**
104 **Company's Metro Louisville ROW.**

105 A. As stated in my direct testimony, my understanding is that the Company currently only
106 collects the franchise fee from a portion of customers within Jefferson County, and no
107 customers outside Jefferson County. Additionally, the Commission has issued a decision,
108 in KY PSC Case Nos. 2016-00317 and 2016-00347, stating its intention to review the
109 Company's franchise fee collection practices. As stated in my summary above, it is clear
110 from the LG&E Supplemental Response that without the use of the ROW in Louisville
111 Metro, gas would not be available for use by customers living in Jefferson, Bullitt,
112 Nelson and Shelby counties. This has further implications for the design of LG&E's
113 overall system and the purpose for collecting the franchise fee.
114

115 **Q. Does the scope of your testimony include an assessment of the appropriate allocation**
116 **of the City of Louisville's franchisee fee?**

117 A. Yes, it does. While my direct testimony filed on March 15 stated that my evaluation was
118 limited to review of LG&E's utilization of the Louisville Metro ROW from an
119 engineering perspective only, my review of the LG&E Supplemental Response not only
120 allows me to confirm my preliminary engineering evaluation but also extend this
121 evaluation to an assessment of how to allocate the City of Louisville franchise fee. I
122 discuss my recommendation regarding the appropriate method for collecting the franchise
123 fee below.

124 **II. REVISED PRELIMINARY GAS FLOW EVALUATION**

125

126 **Q. Please explain why it was necessary for the Company to provide supplemental**
127 **responses to Question Nos. 1 and 12.**

128 A. The Company provided supplemental responses to Question Nos. 1 and 12 because their
129 original responses did not provide a sufficient level of detail regarding how gas flows on
130 their system into and out of Jefferson County on the latest peak day, as Louisville Metro
131 requested. This direction of flow information is typically available as part of the utility's
132 Network Analysis program that demonstrates how the system is designed to operate to
133 make sure that all customers are served reliably during periods of high demand.

134

135 **Q. Please explain what is meant by the term "Network Analysis"?**

136 A. In my direct testimony, I describe the basic purpose of Network Analysis as the tool that
137 allows the utility system planning department to see the effect load growth has on the
138 system over time. New load added to the distribution system can cause pressures to drop
139 to threshold levels that jeopardize reliable service. At that point, the remedy includes the
140 installation of larger pipes, system looping and/or pressure regulation. The Network
141 Analysis tool allows a system planner to optimize the length and diameter of the pipe that
142 needs to be installed to remedy the peak day low pressure issues. Just as the Company
143 must procure and prioritize its portfolio of gas supply contracts to meet the peak day
144 distribution system needs, the system itself must be designed to deliver those supplies to
145 the customer. The Network Analysis tool also shows how the direction of gas flow can
146 result in maintaining pressures at specific points along the distribution system.

147

148 **Q. Please explain how direction of gas flow is represented in Network Analysis?**

149 A. The Company's distribution system configuration is made up of a combination of large
150 diameter mains, operating at a relatively high pressure, and narrower diameter
151 distribution pipelines, operating at a lower pressure, that ultimately deliver gas supply to
152 individual service lines connected to homes and businesses. Because the volume of gas
153 that can be delivered over a given segment, subsystem or system is a function of interior
154 pipe diameter and pressure, direction of gas flow can vary by main versus distribution

155 segments and where these segments are located in relation to citygate interconnections.²
156 Network Analysis shows the effects on deliverable gas from citygate interconnections
157 depending on the configuration of mains and distribution facilities and the change in the
158 amount and location of customer demand over time. And the given segment analyzed
159 with the Network Analysis tool is evaluated for the appropriate size to meet the growth in
160 load, whether that load growth occurs within a municipal boundary or across county
161 lines.

162
163 Thus, Network Analysis is an important step in the evaluation of whether the Company's
164 facilities located in a municipality's ROW are used to deliver supply to gas customers
165 located elsewhere within the Company's service territory.

166
167 **Q. Please describe the difference between the Company's original and supplemental**
168 **discovery responses.**

169 A. The Company's original response did not provide the information in the format
170 requested. I requested a map or schematic of the Company's system that shows the
171 direction and quantities of gas flow for LG&E's entire distribution system in Kentucky
172 overlaid on a map showing the boundaries of the various counties and municipalities that
173 fall within the Company's service territory. Because the Company's witness, Mr. Lonnie
174 Bellar, referred to the "interconnectedness" of the LG&E gas distribution system in his
175 direct testimony, I presumed such a map or schematic would be available from the
176 Company's network analysis model or another software application that performs a
177 similar function. The Company's original response to my request for a schematic came
178 in the form of a spreadsheet containing columns of numbers with minimal description
179 that, most importantly, were not linked to any kind of map or schematic. I was unable to
180 review the requested schematic of the Company's system until I received the LG&E
181 Supplemental Response.

182
183 **Q. Please describe the schematic included with the LG&E Supplemental Response that**
184 **supports your revised evaluation.**

² Definitions for "direction of gas flow" and "citygate interconnections" were provided on pages 4-5 of my Direct Testimony, filed on March 14, 2017.

185 A. The Company provided the requested schematic in two separate documents, both of
186 which they filed under seal pursuant to a petition for Confidential Protection. As a result,
187 I must rely upon the Company's publicly filed description in the text response to
188 Question No. 1.³ The Company's public supplemental response states that it has
189 created:

190 "… maps showing the directions of flow using design day data for LG&E's high
191 pressure transmission pipelines in Jefferson County and all distribution pipelines
192 (excluding service lines) of any pressure crossing the Jefferson County line. The
193 maps also show the design day direction of flow and flow volumes. The map
194 titled "LG&E High Pressure System" is a schematic of LG&E's entire high
195 pressure system and the map titled "Jefferson County Detail" is a more detailed
196 schematic of Jefferson County, which includes the non-high pressure distribution
197 mains crossing the Jefferson County border and the home rule municipalities in
198 Jefferson County."⁴

199
200 **Q. Please explain what is meant by the term "design day" in the Company's**
201 **supplemental response.**

202 A. I do not have the Company's definition of design day, but my understanding is that for
203 most utilities design day is based on the coldest weather experienced over, e.g., ten or
204 more years of recent history. In other words, the design day is a calculation of the total
205 daily demand that the Company would experience under extreme cold weather conditions
206 based on historical temperature recordings in their service territory. This is a typical
207 scenario analysis approach used by utilities for planning purposes to confirm that their
208 system design and portfolio of contract resources are sufficient to reliably serve firm
209 customers.

210
211 **Q. Does the Company's response based on design day conditions suffice for your**
212 **evaluation even though Question No. 1 requested a schematic based on the most**
213 **recent peak day, which is based on actual weather conditions?**

³ Please note that while the Company filed a supplemental response to Question No. 12 as part of the LG&E Supplemental Response, the specific response it gave to Question No. 12 refers the reader to its supplemental response to Question No. 1.

⁴ Company's Supplemental Response to Question No. 1, page 2 of 3.

214 A. Yes, it does because such extreme conditions, even though they may not be experienced
215 every year, could be experienced at some point, making it useful for understanding how
216 the system is designed to serve all customers for planning purposes. (The recent weather
217 event referred to as the “Polar Vortex” winter is a case in point because for many utilities
218 it set a new record high peak demand day.) The Company provides further assurances in
219 this regard by stating that “While the conditions used for network analysis are based on
220 projected conditions, they are based on actual performance data and probable operating
221 conditions.”⁵

222

223 **Q. Does the information on direction of gas flow provided in the LG&E Supplemental**
224 **Response support your preliminary evaluation?**

225 A. Yes, it does. Based on my review of these two schematics, it still appears to me that the
226 counties of Jefferson, Bullitt, Nelson and Shelby are served by gas supply received at
227 three citygate interconnections with Texas Gas shown on the public document, Exhibit
228 LEB-1, as being located in Jefferson County. For the same reason, it appears that all
229 LG&E gas customers located within Jefferson County are served by gas supply from
230 these three citygate stations and thus are served by infrastructure located within the
231 Louisville Metro’s ROW.

232

233 **Q. How has the new information provided by LG&E informed your conclusions since**
234 **the filing of your direct testimony?**

235 A. The Company provided as part of the second schematic included in the Confidential
236 Attachment, [REDACTED]

237 [REDACTED]

238 [REDACTED]

239 [REDACTED]

240 [REDACTED]

241 [REDACTED]

242 [REDACTED]

243 [REDACTED] the fact remains that this information supports

⁵ Ibid.

244 my conclusion that some gas flows through Jefferson County to serve customers in other
245 counties due to the interconnectedness of the LG&E system. As a result, I believe this
246 information supports my assertion that the gas leaving Jefferson County utilizes LG&E
247 distribution facilities located in the Metro Louisville ROW.

248

249 **Q. Are you prepared to make any additional observations about the Company's system**
250 **based on your review of the LG&E Supplemental Response?**

251 A. Yes, based on the additional direction of flow information provided, it appears to me that
252 without the ability to take receipts from these three citygate interconnections with Texas
253 Gas in Jefferson County, the counties of Bullitt, Nelson and Shelby, as well as Jefferson
254 County, would not receive gas service. By this I mean that if the flow of gas were
255 stopped at certain points on the Company's transmission or high pressure distribution
256 system within Jefferson County, certain customers in the adjacent counties of Bullitt,
257 Shelby and Nelson would not receive gas service.

258

259 **Q. What observations can you make about the additional counties served by the LG&E**
260 **system?**

261 A. Oldham, Spencer, Marion, Hardin, Larue, and Meade counties rely on the
262 interconnections of the LG&E gas system, including that infrastructure located in the
263 Louisville Metro ROW. While these counties could rely on the Louisville Metro ROW
264 for service under specific circumstances, it is less likely that gas regularly travels directly
265 from Jefferson County into the counties listed here.

266

267 **Q. Do you still consider the conclusions you provided in your direct testimony to be**
268 **preliminary?**

269 A. No. While more detail at the low-pressure distribution system would be helpful to have, I
270 believe the information provided in the LG&E Supplemental Response is sufficient to
271 support a conclusion that the Company designs and operates their transmission and
272 distribution system to provide customers in all counties with reliable service at the same
273 time. As a result, I believe that my preliminary conclusion with respect to gas supply
274 relying upon facilities located in the Louisville Metro ROW to serve other customers

275 located throughout Jefferson and other counties has been substantiated by the LG&E
276 Supplemental Response.

277

278 **Q. Why do you emphasize the interconnectedness of the entire LG&E system?**

279 A. I emphasize the interconnectedness of the entire LG&E system, which includes the
280 transmission and high pressure distribution system described in the LG&E Supplemental
281 Response as well as the lower pressure distribution and service lines, for two reasons.
282 The first reason is because the Company itself emphasized the interconnectedness of its
283 system in its Filing.⁶ The second reason is because it supports my view that the home
284 rule municipalities would not receive service without access to the LG&E facilities in the
285 Louisville Metro ROW.

286

287 **Q. How does the interconnectedness of the entire LG&E system influence your view of**
288 **how the franchise fee should be collected?**

289 A. I believe that the interconnectedness of the entire LG&E system supports the view that
290 transmission and distribution system costs are generated by the need to serve all
291 customers but only collected by individual government entities as a matter of tradition or
292 convenience. As discussed above, the need for changes in pipe diameter and length is a
293 function of how the Company needs to operate the system to meet load growth at
294 different points on the system and through time. As a result, the addition of transmission
295 and distribution system pipe in one part of the system can allow gas to flow to another
296 part of the system that is experiencing growth even if those two areas are not contiguous.
297 What this means in simple terms is that pipe may be added in the Louisville Metro ROW
298 for the purpose of benefitting a portion of the system outside of Jefferson County,
299 possibly even several counties away from Louisville Metro.

300

301 Put another way, if the Company were to design the system such that each municipality
302 or county had its own citygate interconnection with the interstate pipeline and isolated
303 downstream transmission and distribution system that allowed it to be served separate

⁶ In the Matter of: Louisville/Jefferson county Metro Government v. Louisville Gas and Electric Company, Case No. 2016-00347, Amended Complaint at 6 (Ky. PSC Nov. 9, 2016), LG&E Direct Testimony of Lonnie E. Bellar, pp. 5 at 22 through page 2 lines 1-2.

304 from the neighboring communities, the utility would have to re-pipe its entire system. As
305 the Company said in its original filing, “LG&E’s distribution system in the rights-of-way
306 of the various municipal and county governments is inextricably interconnected to serve
307 all customers.”⁷

308 **III. PURPOSE OF THE FRANCHISE FEE**

309
310 **Q. What is the purpose of the franchise fee?**

311 A. Louisville Metro Councilman Rick Blackwell has described the basics of a franchise as a
312 mechanism “to ensure that a utility pays the city for the benefit the utility realizes by use
313 of the city’s rights of way. Essentially, it is the rent a utility owes to a city for the
314 opportunity to use the city’s infrastructure to provide service and earn a profit.”⁸ I believe
315 this is accurate. Essentially, this means that the franchise fee represents a cost for
316 services provided by the governmental authority controlling the ROW that allow the
317 utility to operate its transmission and distribution system in a reliable manner.

318
319 **Q. Please describe your understanding of the activities that the franchise fee covers.**

320 A. The franchise fee affords the utility the right, subject to necessary permitting, to expand
321 or modify the ROW to put adequately sized pipe in the ground to serve not only the
322 customers in the immediate vicinity of, for example, Louisville Metro, but also customers
323 located elsewhere within the LG&E service territory, including elsewhere in Jefferson
324 County. This means that the Company relies on the municipality to provide certain
325 services in support of utility work order events that require opening up the ground within
326 the ROW that may include, e.g., staff to evaluate requests for permits, monitor work crew
327 safety and traffic diversions, inspect remediation efforts and issue permits. Outside of
328 specific work crew activities, municipalities are relied upon to maintain safe and ready
329 access to the ROW throughout the year, including snow removal and confirmation of the
330 location of electric and water mains in the same ROW, among other on-going activities.

331

⁷ LG&E Direct Testimony of Lonnie E. Bellar, page 5 at 22 through page 6 lines 1-2.

⁸ Direct Testimony of Rick Blackwell, page 2, lines 11-13.

332 **Q. If these ROW related costs are unique to Louisville Metro, why do you believe they**
333 **should be collected throughout Jefferson County?**

334 A. I believe that all customers benefit from the interconnectedness of the LG&E gas system,
335 as reflected in the LG&E Supplemental Response and the Filing. This is certainly true
336 for those customers residing outside of Louisville Metro but within Jefferson County.
337 Typically, in utility operations, where a group of customers benefits from utility
338 infrastructure, those customers are expected to share the cost of the infrastructure as
339 allocated through a cost of service study, or some other mechanism. In this instance, the
340 mechanism is the Franchise Fee. Therefore, since all customers within Jefferson County
341 benefit from how the system is designed and operated as a whole, all customers in
342 Jefferson County should help to pay for expense incurred as a result of providing safe
343 reliable service to all LG&E gas customers residing within Jefferson County.

344 **IV. CONCLUSION**

345

346 **Q. Please summarize your conclusions and recommendations?**

347 A. Based on my review of the limited information available to me in this case, including the
348 additional information provided in the LG&E Supplemental Response, I conclude that
349 1) Gas supply received via three LG&E citygate interconnections with Texas Gas utilize
350 and rely directly upon the Metro Louisville ROW in order to serve customers located
351 throughout Jefferson County, and in the counties of Bullitt, Nelson and Shelby;
352 2) The schematic representing the Company's network analysis supports the conclusion
353 that LG&E's entire distribution system is designed to be highly interconnected, as
354 LG&E itself states, which supports the conclusion that customers throughout the
355 LG&E gas service territory benefit from LG&E's access to the Metro Louisville
356 ROW.

357

358 And I recommend that the Commission:

359 i. Recognize that all customers benefit from the interconnected operation of
360 the LG&E transmission and distribution system, which includes the design
361 and operation of the Company's transmission and distribution system

- 362 within the Louisville Metro ROW;
- 363 ii. Recognize that the franchise fee is collected as compensation for
- 364 providing services related to the operation and maintenance of the
- 365 transmission and distribution pipelines the Company has installed in a
- 366 municipal right of way (ROW) rather than to pay for other municipal
- 367 services, and therefore;
- 368 iii. Require the Louisville Metro gas franchise fee to apply to all LG&E gas
- 369 customers within Jefferson County;
- 370

371 **Q. Does that conclude your testimony?**

372 A. Yes, it does.