Commonwealth of Kentucky
Before the Public Service Commission

In the Matter of:

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

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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I. QUALIFICATIONS AND SUMMARY OF TESTIMONY

Q. Mr. Neale, please identify yourself for the record.
A. My name is Allen R. Neale. I am a Consultant working in conjunction with Daymark Energy Advisors (“Daymark”). My business address is Allen R. Neale c/o Daymark Energy Advisors, One Washington Mall, 9th Floor, Boston, MA 02108.¹

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

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

Q. Please summarize the scope of your rebuttal testimony.
A. I have been asked to review the March 14, 2017 testimonies of LG&E witnesses Lonnie E. Bellar and Robert M. Conroy; the April 7, 2017 LG&E responses to Louisville Metro and Commission requests for information; and the May 26, 2017, LG&E Supplemental responses to two of Louisville Metro’s discovery questions originally submitted as part of Louisville Metro’s Request for Information, filed on March 24, 2017. The LG&E supplemental responses to Louisville Metro discovery Question Nos. 1 and 12 included a 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.
Supplemental Response”). Based on my review of the maps included in the Confidential Attachment, I have updated my opinion whether the gas supply received at the citygate interconnections between LG&E and the interstate pipeline transmission system for redelivery to LG&E’s customers located within Louisville Metro also serves additional customers within LG&E’s service territory. Further, my revised opinion allows me to provide an additional recommendation for the Commission to consider regarding the appropriate method of franchise fee recovery that is the subject of this Filing.

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

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

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

1. Gas supply received via the LG&E citygate interconnections with the Texas Gas Transmission System (Texas Gas) utilize the right of way corridor (ROW) within Louisville Metro in order to serve customers located throughout Jefferson County and the counties of Bullitt, Nelson and Shelby;

2. The Company has installed adequately sized pipes throughout its service territory to provide reliable service to all customers, regardless of in which county they reside, with the result that if flow were halted at certain points within the Louisville Metro ROW, customers residing both in the smaller municipalities within Jefferson County and even those customers residing outside Jefferson County would not receive gas supply; and as a result,
3. The Commission should:
   i. Recognize that all customers benefit from the interconnected operation of
      the LG&E transmission and distribution system, which includes the design
      and operation of the Company’s transmission and distribution system
      within the Louisville Metro ROW;
   ii. Recognize that the franchise fee is collected as compensation for
      providing services related to the operation and maintenance of the
      transmission and distribution pipelines the Company has installed in a
      municipal right of way (ROW) rather than to pay for other municipal
      services, and therefore;
   iii. Require the Louisville Metro gas franchise fee to apply to all LG&E gas
      customers within Jefferson County;

II. SCOPE OF REVIEW

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

A. I have reviewed the relevant information for this proceeding, which includes the
   following non-confidential documents:
   - Louisville Metro Complaint, Exhibit 1, Metro Council Districts in Jefferson
     County,
   - Louisville Metro Complaint, Exhibit 2, Incorporated Cities in Jefferson County,
   - Louisville Metro Complaint, Exhibit 3, Incorporated Cities and Metro Council,
     Districts in Jefferson County (i.e., the information contained in Exhibits 1 and 2
     shown on the same map),
   - Louisville Metro Complaint, Exhibit 4, Natural Gas Distribution Service Areas
     (within the state of Kentucky),
   - Louisville Gas and Electric P.S.C. Gas No. 10, Original Sheet 90, Adjustment
     Clause, Franchise Fee, Applicability and Monthly Charge; and
   - Testimony and data responses of LG&E witnesses.

I also have reviewed, subsequent to executing a non-disclosure agreement, the following
three CONFIDENTIAL documents:
Q. Please review why your analysis is focused on gas supply flow through the
Company’s Metro Louisville ROW.

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

Q. Does the scope of your testimony include an assessment of the appropriate allocation
of the City of Louisville’s franchisee fee?

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

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

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

Q. Please explain what is meant by the term “Network Analysis”?

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

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

A. The Company’s distribution system configuration is made up of a combination of large diameter mains, operating at a relatively high pressure, and narrower diameter distribution pipelines, operating at a lower pressure, that ultimately deliver gas supply to individual service lines connected to homes and businesses. Because the volume of gas that can be delivered over a given segment, subsystem or system is a function of interior pipe diameter and pressure, direction of gas flow can vary by main versus distribution...
Network Analysis shows the effects on deliverable gas from citygate interconnections depending on the configuration of mains and distribution facilities and the change in the amount and location of customer demand over time. And the given segment analyzed with the Network Analysis tool is evaluated for the appropriate size to meet the growth in load, whether that load growth occurs within a municipal boundary or across county lines.

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

Q. Please describe the difference between the Company’s original and supplemental discovery responses.

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

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

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

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

Q. Please explain what is meant by the term “design day” in the Company’s supplemental response.

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

Q. Does the Company’s response based on design day conditions suffice for your evaluation even though Question No. 1 requested a schematic based on the most 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.
Yes, it does because such extreme conditions, even though they may not be experienced every year, could be experienced at some point, making it useful for understanding how the system is designed to serve all customers for planning purposes. (The recent weather event referred to as the “Polar Vortex” winter is a case in point because for many utilities it set a new record high peak demand day.) The Company provides further assurances in this regard by stating that “While the conditions used for network analysis are based on projected conditions, they are based on actual performance data and probable operating conditions.”

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

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

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

A. The Company provided as part of the second schematic included in the Confidential Attachment, the fact remains that this information supports
my conclusion that some gas flows through Jefferson County to serve customers in other counties due to the interconnectedness of the LG&E system. As a result, I believe this information supports my assertion that the gas leaving Jefferson County utilizes LG&E distribution facilities located in the Metro Louisville ROW.

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

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

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

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

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

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

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

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

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

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

III. PURPOSE OF THE FRANCHISE FEE

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

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

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

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

IV. CONCLUSION

Q. Please summarize your conclusions and recommendations?

A. Based on my review of the limited information available to me in this case, including the additional information provided in the LG&E Supplemental Response, I conclude that

1) Gas supply received via three LG&E citygate interconnections with Texas Gas utilize and rely directly upon the Metro Louisville ROW in order to serve customers located throughout Jefferson County, and in the counties of Bullitt, Nelson and Shelby;

2) The schematic representing the Company’s network analysis supports the conclusion that LG&E’s entire distribution system is designed to be highly interconnected, as LG&E itself states, which supports the conclusion that customers throughout the LG&E gas service territory benefit from LG&E’s access to the Metro Louisville ROW.

And I recommend that the Commission:

i. Recognize that all customers benefit from the interconnected operation of the LG&E transmission and distribution system, which includes the design and operation of the Company’s transmission and distribution system
within the Louisville Metro ROW;

ii. Recognize that the franchise fee is collected as compensation for
    providing services related to the operation and maintenance of the
    transmission and distribution pipelines the Company has installed in a
    municipal right of way (ROW) rather than to pay for other municipal
    services, and therefore;

iii. Require the Louisville Metro gas franchise fee to apply to all LG&E gas
     customers within Jefferson County;

Q. Does that conclude your testimony?
A. Yes, it does.