COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES COMPANY FOR AN ADJUSTMENT OF ITS ELECTRIC RATES AND FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY	**)))))**	**CASE NO. 2016-00370**

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN ADJUSTMENT OF ITS ELECTRIC AND GAS RATES AND FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY	**)))))**	**CASE NO. 2016-00371**

SUPPLEMENTAL REBUTTAL TESTIMONY OF
WILLIAM STEVEN SEELYE
MANAGING PARTNER
THE PRIME GROUP LLC
OF
SUPPLEMENTAL TESTIMONY
FILED BY INTERVENOR WITNESSES

Filed: May 2, 2017

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is William Steven Seelye. My business address is 6001 Claymont Village Drive, Suite 8, Crestwood, Kentucky 40014.

Q. Have you previously submitted testimony in these proceedings?

A. Yes. I submitted Direct Testimony on November 23, 2016, Rebuttal Testimony on April 10, 2017, and testimony in support of the First Stipulation and Recommendation ("Stipulation") on April 24, 2017. I am now submitting supplemental rebuttal testimony on behalf of Kentucky Utilities Company ("KU") and Louisville Gas and Electric Company ("LG&E") (collectively "Companies").

Q. What is the purpose of your supplemental rebuttal testimony?

A. The purpose of my testimony is to rebut the Supplemental Testimony filed by Stephen J. Baron on April 14, 2017, on behalf of Kentucky Industrial Utility Customers, Inc. ("KIUC"). I will also briefly address the Supplemental Testimony filed by Kentucky Attorney General ("Attorney General") witness Glenn A. Watkins and Kentucky School Board Association ("KSBA") witness Ronald L. Willhite.

Q. Why are LG&E and KU filing supplemental rebuttal testimony?

A. The Commission's Order of April 7, 2017 revised the procedural schedule to be followed in each of these cases. Intervenors were permitted to file supplemental testimony on the issue of the cost of service on April 14, 2017; the parties were permitted a round of discovery; and the Companies were allowed to file supplemental rebuttal testimony on May 2, 2017.

A prehearing informal conference for the purpose of discussing settlement and the text of a stipulation and recommendation, attended by the parties and the Commission Staff, took place on April 12, 13, and 17, 2017, at the offices of the Commission, during which a number of procedural and substantive issues were discussed, including potential settlement of all issues in these cases. On April 19, 2017, with the exception of AT&T and Kentucky Cable Telecommunications Association, the parties reached agreement and entered into a stipulation and recommendation ("First Stipulation"), which the Companies have filed with the Commission. I submitted testimony in support of the First Stipulation on April 24, 2017.

Q Do you continue to support the Stipulation filed with the Commission on April 19, 2017, as producing fair, just, and reasonable results in these proceedings?

A. Yes. I continue to believe the First Stipulation, taken as a whole, produces fair, just, and reasonable results in these proceedings, and I respectfully recommend the Commission approve it in its entirety. The submission of my supplemental rebuttal testimony in accordance with the Commission's revised procedural schedule should not be misconstrued as a change of position on the First Stipulation.

II. KIUC WITNESS BARON'S SUPPLEMENTAL TESTIMONY

Q. Please provide some background on Mr. Baron's Supplemental Testimony?

A. In his Direct Testimony filed in these proceedings, Mr. Baron pointed out an error in the spreadsheet used to develop the hourly class loads that were utilized to determine the allocation factors in the Companies' cost of service studies. The Companies corrected the hourly load data and provided revised class load data, source documents, and a detailed description of the corrections in the supplemental responses to KU PSC 2-97 and LG&E PSC 2-109 filed on March 28, 2017. The Companies also corrected the class cost of service studies and provided the studies and a detailed description of the impact of the corrections in the supplemental responses to KU PSC 1-53 and LG&E PSC 1-53, which were also filed on March 28, 2017. I also addressed the impact of the corrections on the class cost of service studies in my Rebuttal Testimony filed on April 10, 2017.

As explained in my Direct and Rebuttal Testimony, the Companies submitted cost of service studies utilizing two different methodologies for allocating fixed production costs, one using the modified Base-Intermediate-Peak methodology ("modified BIP methodology") and the other using the Loss of Load Probability methodology ("LOLP methodology"). In its Order dated April 7, 2017, the Commission revised the procedural schedule in these proceedings to allow the intervenor witnesses to file Supplemental Testimony to address the impact of the corrections on their cost of service studies and positions.

Q. What is Mr. Baron's primary concern?

A. In both his Direct and Supplemental Testimony Mr. Baron expresses concern that National American Stainless's ("NAS's") peak demands under KU's Fluctuating Load Service ("Rate FLS" or "FLS") are overstated in the hourly load data.

Q. Are there specific hours that play a predominant role in the modified BIP cost of

service study?

A. Yes. In the modified BIP methodology, class load data for only two hours are used to develop production allocation factors. With the modified BIP methodology, base costs are allocated on the basis of annual energy (which does not rely on the hourly load data for the determination of the allocation factor). Intermediate costs are allocated on the basis of the winter coincident peak demand (i.e., the hourly class demand at the time of the winter system peak) ("Winter CP"). Peak costs are allocated on the basis of the summer coincident peak demand (i.e., the hourly class demand at the time of the summer system peak) ("Summer CP"). Because only the Winter CP and the Summer CP hours are used to allocate Intermediate and Peak costs, only the class demands at the time of the winter and summer system peaks are used in the modified BIP cost of service study. For the modified BIP methodology, the winter system peak occurs on January 3 at hour beginning 8:00 AM, and the summer system peak occurs on August 9 at hour beginning 3:00 PM during the forecasted test year.

Q. In his Supplemental Testimony, did Mr. Baron demonstrate that NAS's demands during Winter CP and Summer CP are unreasonable?

A. No. With the modified BIP methodology, demands during November have no bearing on the allocation of fixed production costs. November is a shoulder month; therefore, the maximum demands during November have no bearing on the Companies' fixed production costs. With the modified BIP methodology, only the Summer CP, Winter CP and annual energy are relevant. The demands that KU forecasts for NAS during the summer and winter system peak hours are reasonable; therefore, the results of the

Companies' modified BIP cost of service study are sound.

Q. What hourly loads are relevant to the allocation of fixed production costs with the LOLP methodology?

A. The LOLP methodology weights the loads for each hour based on LOLP. With the LOLP methodology, only loads during the summer and winter peak hours come into play. In other words, the only hours that have a material impact on the determination of the fixed production cost allocation factor occur during the months of June, July, August, September and January, and then only hours during the Companies' peak periods (afternoon and evening hours during the summer months and late morning and early nighttime hours during winter months).

Q. What cost of service methodology does KIUC propose?

A. In KIUC's proposed cost of service study, Mr. Baron uses a "5 CP method". As he explains in his Supplemental Testimony, "The 5 CP method is based on each rate class's contribution to the 5 highest monthly system peaks… During the test year in this case, these 5 highest monthly peaks occurred during the months of June, July, August, September and January (4 summer months, 1 winter month)."[1] The five highest monthly peak demands occur during the following hours (hour beginning) in the forecasted test period:

(1) July 31, 2017 @ 2:00 PM

(2) August 9, 2017 @ 3:00 PM

[1] Baron's Supplemental Testimony at page 10, lines 2-3 and lines 9-11.

(3) September 1, 2017 @ 3:00 PM

(4) January 3, 2018 @ 8:00 AM

(5) June 29, 2018 @ 3:00 PM

Q. In his Supplemental Testimony, did Mr. Baron demonstrate that NAS's demands during these five hours are unreasonable?

A. No. He only discusses NAS's maximum load during the shoulder month of November.

Q. Therefore, has Mr. Baron provided any empirical support that the hourly demands for NAS or any other customer class *that were actually used* in either the Companies' or his own cost of service study are unreasonable?

A. No. Mr. Baron focuses on NAS's loads during the shoulder month of November and claims that the maximum demand that KU forecasts for NAS during November for the test year is unreasonable. For purposes of allocating fixed production cost with either the Companies' modified BIP methodology, or the LOLP methodology, or Mr. Baron's recommended 5 CP methodology, NAS's maximum demand during November is irrelevant.

Q. Despite the fact that NAS's maximum demand for November has no bearing on the Companies' or the KIUC's cost of service studies, is the maximum demand that KU forecasts for NAS during November inaccurate?

A. No. The maximum demand that KU forecasts for NAS during November is reasonable. Although November is a shoulder month for KU and LG&E, NAS's annual maximum demand will typically occur during either November or December. Mr. Baron focuses on the forecasted maximum demand for NAS during November because NAS's peak demand forecasted for November is the maximum demand for the year in the Company's forecast. As explained in the Companies' data response in more detail, the maximum demand that KU forecasts for NAS during November is accurate and reasonable.[2]

Q. Are the criticisms that Mr. Baron now makes in this Supplemental Testimony consistent with criticisms he made in his Direct Testimony filed in these proceedings?

A. No. In an effort to demonstrate that the load profiles originally filed by the Companies were unreasonable, he points out in his Direct Testimony that the changes from the Historical Period to the Forecasted Test Period in monthly peak demands are not consistent with the changes in monthly sales.[3] He further states that "there is simply no evidence that the NAS load shape will change."[4] Mr. Baron therefore claimed in his Direct Testimony that the FLS load factors in the forecasted test period should be unchanged from the historical period. In the Companies' updated class load profiles, the FLS load factors are unchanged from the historical period.

Even though the FLS load factors are unchanged from the historical levels in the historical period, Mr. Baron argues in his Supplemental Testimony that this should not be the case.[5] Although the load profiles originally filed by the Companies were indeed incorrect due to the ordering errors identified by Mr. Baron, the updated profiles

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[2] *See* Companies' Response to Commission Staff Request No. 5-1 (April 28, 2017)
[3] Baron Direct Testimony at page 17.
[4] *Id*. at page 18.
[5] Baron Supplemental Testimony at page 6, lines 3-9.

are entirely reasonable and consistent with load profiles from the historical period.

Q. What is your assessment of the Companies' hourly peak demands for NAS?

A. The hourly demands for NAS used in the various cost of service studies submitted in these proceeding are reasonable.

Q. Did Mr. Baron analyze the load data for any other rate class besides the FLS load for NAS?

A. No. Mr. Baron focused only on NAS's FLS load, and then only on demands for the shoulder month of November.[6] Neither KIUC nor any other party in these proceedings has demonstrated that the corrected load data used in the Companies' cost of service study are unreasonable. Once the spreadsheet error was corrected, the hourly class loads used to develop the allocation factors in the Companies' cost of service studies are reasonable.

Q. What is your view on the use of a 5 CP methodology for allocating fixed production costs?

A. Although a 5 CP methodology is an established methodology that largely corresponds to the sizing of the Companies' generating assets, I believe that the LOLP methodology is a more robust approach and reflects how the Companies' generation assets are planned. The Companies' generation resources are certainly sized to meet system peak demands; however, the choice of four summer CPs and one winter CP is somewhat arbitrary. The selection of the 5 CP approach begs a number of questions. For example,

[6] See KIUC's response to Commission Staff's Second Request for Information dated April 28, 2017.

why select four summer CPs and one winter CP rather than two winter CPs and three summer CPs? Or why not five summer CPs? In contrast, the LOLP methodology allocates fixed production costs on the LOLP weighted loads for more than 300 hours during the year, instead of merely five somewhat arbitrary hours. By utilizing loads for hundreds of hours to develop the LOLP weighted allocation factors in the Companies' study, instead of loads for just five hours, the LOLP methodology is more robust than KIUC's 5 CP methodology.

III. AG WITNESS WATKINS' AND KSBA WITNESS WILLHITE'S SUPPLEMENTAL TESTIMONY

Q. Do you have any comments on Mr. Watkins' Supplemental Testimony?

A. Yes. I provided detailed criticisms of the AG's proposed cost of service studies in my Rebuttal Testimony. While my criticisms of the cost of service methodologies recommended by Mr. Watkins are no different than what I stated in my Rebuttal Testimony, his revised class rates of return demonstrate that correcting the error in the Companies' hourly load data did not have a significant impact on Mr. Watkins' cost of service studies. As I discussed in my Rebuttal Testimony, the errors in the hourly load data were relatively minor. Mr. Watkins' revised studies confirm my assessment.

Q. Do you have any comments on Mr. Willhite's testimony?

A. Yes. While Mr. Willhite did correct for the failure to remove base ECR revenues from the test year revenues included in his cost of service studies, he still makes numerous assumptions that cannot be validated without collecting more data. In the Stipulation filed in these proceedings, the Parties have agreed to offer new rates specific to schools that are subject to KRS 160.325 on a pilot basis. Offering the new school rates as pilots will allow the Companies to collect billing and load data that would be needed to perform a more accurate cost of service.

Q. In closing, would you please restate your position on the First Stipulation filed with the Commission on April 19, 2017?

A. Yes. I continue to believe the First Stipulation, taken as a whole, produces fair, just, and reasonable results in these proceedings, and I respectfully recommend the Commission approve it in its entirety.

Q. Does this conclude your Rebuttal Testimony regarding the intervenor's Supplemental Testimony?

A. Yes.

VERIFICATION

STATE OF NORTH CAROLINA)
) **SS:**
COUNTY OF TRANSYLVANIA)

The undersigned, **William Steven Seelye**, being duly sworn, deposes and states that he is a Principal of The Prime Group, LLC that he has personal knowledge of the matters set forth in the foregoing testimony and exhibits, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

W. Seelye

William Steven Seelye

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 26 day of April 2017.

Brooke L. Banther (SEAL)
Notary Public

My Commission Expires:

13 March 2022

BROOKE L BANTHER
NOTARY
PUBLIC
TRANSYLVANIA COUNTY, NC