

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

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

IN THE MATTER OF:

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

SUPPLEMENTAL TESTIMONY OF
GREGORY W. TILLMAN
ON BEHALF OF
WAL-MART STORES EAST, LP AND SAM'S EAST, INC.

Filed: April 14, 2017

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1 **Introduction**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.**

3 A. My name is Gregory W. Tillman. My business address is 2001 SE 10th St.,
4 Bentonville, AR 72716-5530. I am employed by Wal-Mart Stores, Inc. as Senior
5 Manager, Energy Regulatory Analysis.

6 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS DOCKET?**

7 A. I am testifying on behalf of Wal-Mart Stores East, LP and Sam's East, Inc.
8 (collectively, "Walmart").

9 **Q. ARE YOU THE SAME GREGORY W. TILLMAN THAT FILED DIRECT**
10 **TESTIMONY IN THESE DOCKETS?**

11 A. Yes.

12 **Purpose of Testimony**

13 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?**

14 A. The purpose of my testimony is to address the updated Cost of Service Studies
15 ("COSS") of Kentucky Utilities Company ("KU") and Louisville Gas and Electric
16 Company ("LG&E") (collectively, "Companies") and to specifically address the
17 recommendation of Kentucky Industrial Utility Customers, Inc. ("KIUC"), witness
18 Stephen J. Baron regarding revenue allocation. I will also supplement my testimony
19 regarding the economic impact of the rate design structure changes to the base
20 demand ratchet with regard to customer demand management projects.

1 **Summary of Recommendation**

2 **Q. ARE YOU MODIFYING THE RECOMMENDATIONS TO THE KENTUCKY**
3 **PUBLIC SERVICE COMMISSION ("KPSC" or "Commission")?**

4 A. No. The recommendations from my direct testimony in these cases remain the same.
5 My supplemental testimony contains additional recommendations regarding revenue
6 allocation and the demand ratchet proposal.

7 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATION TO THE**
8 **COMMISSION WITHIN YOUR SUPPLEMENTAL TESTIMONY?**

9 A. My recommendations to the Commission are as follows:

10 1) The Commission should reject a uniform percentage increase to all customer
11 classes, as proposed by KIUC witness Baron in response to the purported lack of
12 valid cost of service information. Instead, the Commission should order a
13 revenue allocation that promotes the reduction of inter-class subsidies as
14 measured against any Commission-approved Cost of Service Studies in these
15 cases.

16 2) If the Commission approves the changes to the base demand ratchet, it should
17 order the Companies to mitigate the resulting disincentives to demand
18 management projects through a change in the tariff or a modification to the
19 Demand Side Management ("DSM") program. A tariff change could provide a
20 waiver of ratchet-based demand charges associated with approved projects for the
21 first year. Alternatively, the DSM rebates could be increased to replace these lost
22 demand billing benefits to customers.

1 **Companies' Updated Cost of Service Studies**

2 **Q. DID THE COMPANIES PROVIDE AN UPDATE TO THEIR FILED COSS?**

3 A. Yes. Both KU and LG&E provided an update to their respective COSS.

4 **Q. WHAT IS YOUR UNDERSTANDING OF THE REASONING FOR THE**
5 **UPDATED COSS?**

6 A. It is my understanding that KIUC witness Baron testified that the models originally
7 filed by the Companies contained errors in the load data, resulting in unreliable
8 results, and were unusable as reasonable guides to allocate the revenue increases to
9 customer classes. *See* Direct Testimony and Exhibits of Stephen J. Baron, p. 4, line 7
10 through p. 5, line 2. The Companies verified the errors and revised the respective
11 COSS to fix the data issues. *See* KU's Supplemental Response filed March 28, 2017,
12 to the Commission Staff's First Request for Information Dated November 10, 2016,
13 Question No. 53; and LG&E's Supplemental Response filed March 28, 2017, to the
14 Commission Staff's First Request for Information Dated November 10, 2016,
15 Question No. 53.

16 **Q. HAVE THE COMPANIES UPDATED THEIR RESPECTIVE PROPOSALS**
17 **FOR REVENUE ALLOCATION AND RATE DESIGN BASED ON THE**
18 **UPDATED COSS RESULTS?**

19 A. The Companies presented no revisions to proposed revenue allocations or rate
20 designs in conjunction with the updated COSS. It is my understanding that the
21 Companies believe that the cost of service results did not change materially and there
22 was therefore no reason for them to update their proposed revenue allocation. *See*

1 Response of Kentucky Utilities Company and Louisville Gas and Electric Company
2 to Joint Motion, Dated April 3, 2017, p. 3.

3 **Q. DO YOU AGREE WITH THE COMPANIES' EVALUATION?**

4 A. In general, I do. While the erroneous COSS data was unfortunate and presented some
5 problems for the parties' evaluation of the Companies' rate proposals, I have
6 examined the COSS data and can accept the Companies' assessment that no
7 significant or material change to the proposed revenue allocation was necessary.

8

9 **KIUC Recommended Revenue Allocation**

10 **Q. DID MR. BARON TESTIFY TO OTHER ISSUES WITH THE COMPANIES'**
11 **COSTS OF SERVICE?**

12 A. Yes. In addition to the data issues, Mr. Baron testified that the Commission should
13 reject the proposed methodology and consider alternative cost allocation
14 methodologies. *See* Direct Testimony and Exhibits of Stephen J. Baron, p. 5,
15 lines 19-22.

16 **Q. DID MR. BARON PROVIDE ALTERNATIVE COST OF SERVICE STUDIES**
17 **FOR THE COMMISSION TO CONSIDER?**

18 A. No.

19 **Q. IS WALMART OPPOSED TO THE COMMISSION'S CONSIDERATION OF**
20 **OTHER COST OF SERVICE ALLOCATION METHODOLOGIES?**

21 A. No. Walmart is not opposed to the consideration of alternative allocation
22 methodologies. To the extent that the Commission desires to consider alternative

1 methodologies, it should require the Company to present alternative methodologies
2 for review in future cases.

3 **Q. WHAT IS MR. BARON'S RECOMMENDATION FOR REVENUE**
4 **ALLOCATION?**

5 A. Mr. Baron recommends an equal percentage increase to all customer classes for both
6 KU and LG&E electric revenue allocations. *See id.* at 34, lines 6-8.

7 **Q. WHAT IS YOUR UNDERSTANDING OF THE BASIS FOR MR. BARON'S**
8 **RECOMMENDATION?**

9 A. According to his testimony, Mr. Baron based his recommendation on the fact that the
10 Companies' Cost of Service Studies contain errors and cannot be relied upon by the
11 Commission to guide revenue allocation. According to Mr. Baron, "the only
12 reasonable alternative is to uniformly increase rates to each rate class." *See id.* at 34,
13 lines 9-10.

14 **Q. DO YOU AGREE THAT A UNIFORM INCREASE IS THE ONLY**
15 **REASONABLE ALTERNATIVE TO REVENUE ALLOCATION?**

16 A. No. An across-the-board increase to address a flawed or unreliable COSS is not a
17 reasonable alternative. This solution, while simple and easily implemented, ignores
18 cost-causation, a fundamental principle in rate design. Without a valid and acceptable
19 Cost of Service Study to establish the standard by which fairness, justness, and
20 reasonableness can be measured, the Commission will be hard-pressed to establish
21 fair, just, and reasonable rates to all classes of customers. If an across-the-board

1 increase is ordered without an understanding of its impact on existing subsidies, the
2 principle of cost-causation is deemed irrelevant.

3 **Q. HAVE YOU TESTIFIED IN THESE CASES AS TO THE IMPORTANCE OF**
4 **REVENUE ALLOCATION BASED ON THE PROPER COST OF SERVICE**
5 **STUDY AND THE ULTIMATE GOAL OF REVENUE ALLOCATION?**

6 A. Yes. In my Direct Testimonies I testified that "cost-based revenue allocation and rate
7 design are therefore the primary tools available to the Commission for establishing
8 economically efficient, or *proper*, price signals." *See* Case No. 2016-00370, Direct
9 Testimony of Gregory W. Tillman, p. 19, lines 1-3; *and* Case No. 2016-00371, Direct
10 Testimony of Gregory W. Tillman, p. 18, lines 1-3. Further, I testified that the
11 ultimate goal is to eliminate or reduce inter-class subsidies through a revenue
12 allocation that reflects the cost of service. *See id.* at 20, line 22 through p. 21, line 4.

13 **Q. GIVEN THE IMPORTANCE OF REVENUE ALLOCATION IN**
14 **ESTABLISHING PROPER PRICE SIGNALS, WHAT IS A REASONABLE**
15 **ALTERNATIVE APPROACH?**

16 A. A reasonable approach would seek to first establish valid costs of service for the
17 Companies based on the evidence presented in these cases and then determine a
18 revenue allocation that seeks to eliminate or make significant reductions to the
19 existing inter-class subsidies.

1 **Q. DID YOU ADDRESS WALMART'S ISSUES WITH THESE CHANGES IN**
2 **YOUR DIRECT TESTIMONIES FILED EARLIER IN THESE CASES?**

3 A. Yes, I did. I testified that the changes were premature and should be more carefully
4 considered with respect to the Companies stated objectives.

5 **Q. WOULD YOU LIKE TO SUPPLEMENT YOUR TESTIMONY ON THIS**
6 **ISSUE?**

7 A. Yes, I would like to address the impact on economics of demand management
8 projects, given what appears to be the Companies' dismissal of this important
9 element. *See* Case No. 2016-00370, Rebuttal Testimony William Steven Seelye,
10 p. 60, line 13 though p. 61, line 10; *and* Case No. 2016-00371, Rebuttal Testimony
11 William Steven Seelye, p. 63, line 13 though p. 64, line 10.

12 **Q. WILL THESE CHANGES INTRODUCE DISINCENTIVES TO CUSTOMERS**
13 **WHEN EVALUATING THESE PROJECTS?**

14 A. Yes. A portion of the benefit to customers is the demand charge benefits associated
15 with reducing demand at the customer's facility. The proposed changes to the base
16 demand ratchet will essentially remove these benefits for the initial year after a
17 project is implemented.

18 At the proposed rates, over the first year, the total lost benefit for KU customers
19 taking service on Time of Day Secondary service is \$3.24 per kW for 12 months or
20 \$38.88 per kW. At LG&E the lost benefit for those customers totals \$58.08 per kW
21 (\$4.84 per kW each month for 12 months.) The impact of these changes on the

1 economics of projects will extend the payback period and could prevent customers
2 from implementing projects that might otherwise be completed.

3 **Q. IF THE COMMISSION APPROVES THE PROPOSED BASE DEMAND**
4 **RATCHET MODIFICATIONS, WHAT IS YOUR RECOMMENDATION?**

5 A. If the Commission approves the changes to the base demand ratchet, it should order
6 the Companies to mitigate the resulting disincentives to demand management projects
7 through a change in the tariff or a modification to the DSM program. A tariff change
8 could provide a waiver of ratchet-based demand charges associated with approved
9 projects for the first year. Alternatively, the DSM rebates could be increased to
10 replace these lost demand billing benefits to customers.

11 **Conclusion**

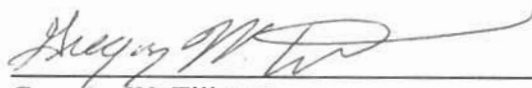
12 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

13 A. Yes.

VERIFICATION


STATE OF ARKANSAS)
) SS:
COUNTY OF BENTON)

The undersigned, Gregory W. Tillman, being duly sworn, deposes and says that he is Senior Manager, Energy Regulatory Analysis for Wal-Mart Stores, Inc., and that he has personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained herein are true and correct to the best of his information, knowledge and belief.



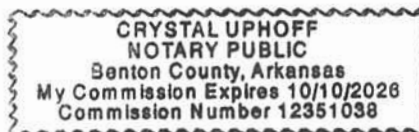
Gregory W. Tillman

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 13 day of April 2017.

 (SEAL)

Notary Public

My Commission Expires: 10-10-2026



CERTIFICATE OF SERVICE

I hereby certify that Walmart's April 14, 2017, electronic filing is a true and accurate copy of Supplemental Testimony of Gregory W. Tillman on behalf of Wal-Mart Stores East, LP and Sam's East, Inc., to be filed in paper medium; and that on April 14, 2017, the electronic filing has been transmitted to the Commission, and that an original and six copies of the filing will be delivered to the Commission, that no participants have been excused from electronic filing at this time, and served upon the following via Electronic Mail:

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