COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

ELECTRONIC 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:

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

Filed: April 14, 2017
Introduction

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.
A. My name is Gregory W. Tillman. My business address is 2001 SE 10th St., Bentonville, AR 72716-5530. I am employed by Wal-Mart Stores, Inc. as Senior Manager, Energy Regulatory Analysis.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS DOCKET?
A. I am testifying on behalf of Wal-Mart Stores East, LP and Sam's East, Inc. (collectively, "Walmart").

Q. ARE YOU THE SAME GREGORY W. TILLMAN THAT FILED DIRECT TESTIMONY IN THESE DOCKETS?
A. Yes.

Purpose of Testimony

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?
A. The purpose of my testimony is to address the updated Cost of Service Studies ("COSS") of Kentucky Utilities Company ("KU") and Louisville Gas and Electric Company ("LG&E") (collectively, "Companies") and to specifically address the recommendation of Kentucky Industrial Utility Customers, Inc. ("KIUC"), witness Stephen J. Baron regarding revenue allocation. I will also supplement my testimony regarding the economic impact of the rate design structure changes to the base demand ratchet with regard to customer demand management projects.
Summary of Recommendation

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

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

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

A. My recommendations to the Commission are as follows:

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

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

Q. DID THE COMPANIES PROVIDE AN UPDATE TO THEIR FILED COSS?
A. Yes. Both KU and LG&E provided an update to their respective COSS.

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

Q. HAVE THE COMPANIES UPDATED THEIR RESPECTIVE PROPOSALS FOR REVENUE ALLOCATION AND RATE DESIGN BASED ON THE UPDATED COSS RESULTS?
A. The Companies presented no revisions to proposed revenue allocations or rate designs in conjunction with the updated COSS. It is my understanding that the Companies believe that the cost of service results did not change materially and there was therefore no reason for them to update their proposed revenue allocation. See
Response of Kentucky Utilities Company and Louisville Gas and Electric Company to Joint Motion, Dated April 3, 2017, p. 3.

Q. DO YOU AGREE WITH THE COMPANIES' EVALUATION?
A. In general, I do. While the erroneous COSS data was unfortunate and presented some problems for the parties' evaluation of the Companies' rate proposals, I have examined the COSS data and can accept the Companies' assessment that no significant or material change to the proposed revenue allocation was necessary.

KIUC Recommended Revenue Allocation

Q. DID MR. BARON TESTIFY TO OTHER ISSUES WITH THE COMPANIES' COSTS OF SERVICE?
A. Yes. In addition to the data issues, Mr. Baron testified that the Commission should reject the proposed methodology and consider alternative cost allocation methodologies. See Direct Testimony and Exhibits of Stephen J. Baron, p. 5, lines 19-22.

Q. DID MR. BARON PROVIDE ALTERNATIVE COST OF SERVICE STUDIES FOR THE COMMISSION TO CONSIDER?
A. No.

Q. IS WALMART OPPOSED TO THE COMMISSION'S CONSIDERATION OF OTHER COST OF SERVICE ALLOCATION METHODOLOGIES?
A. No. Walmart is not opposed to the consideration of alternative allocation methodologies. To the extent that the Commission desires to consider alternative
methodologies, it should require the Company to present alternative methodologies for review in future cases.

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

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

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

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

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

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

Q. HAVE YOU TESTIFIED IN THESE CASES AS TO THE IMPORTANCE OF
REVENUE ALLOCATION BASED ON THE PROPER COST OF SERVICE
STUDY AND THE ULTIMATE GOAL OF REVENUE ALLOCATION?
A. Yes. In my Direct Testimonies I testified that "cost-based revenue allocation and rate
design are therefore the primary tools available to the Commission for establishing
economically efficient, or proper, price signals." See Case No. 2016-00370, Direct
Testimony of Gregory W. Tillman, p. 19, lines 1-3; and Case No. 2016-00371, Direct
Testimony of Gregory W. Tillman, p. 18, lines 1-3. Further, I testified that the
ultimate goal is to eliminate or reduce inter-class subsidies through a revenue
allocation that reflects the cost of service. See id. at 20, line 22 through p. 21, line 4.

Q. GIVEN THE IMPORTANCE OF REVENUE ALLOCATION IN
ESTABLISHING PROPER PRICE SIGNALS, WHAT IS A REASONABLE
ALTERNATIVE APPROACH?
A. A reasonable approach would seek to first establish valid costs of service for the
Companies based on the evidence presented in these cases and then determine a
revenue allocation that seeks to eliminate or make significant reductions to the
existing inter-class subsidies.
Q. DOES THE REVISED DATA PRESENTED BY THE COMPANIES SUPPORT THE PROPOSED COST ALLOCATION IN THESE CASES?

A. Based on my analysis, while not perfect, the revised data supplied by the Companies provides reasonable support for the proposed revenue allocation. At a very minimum, the revised data does not support the radical allocation deviation proposed by Mr. Baron.

Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION REGARDING A UNIFORM PERCENTAGE TO EACH CLASS AS RECOMMENDED BY MR. BARON?

A. The Commission should reject an across-the-board, or uniform, percentage increase to all classes especially if it is designed to respond to a lack of a valid cost of service information. Instead, the Commission should order a revenue allocation that promotes the elimination or reduction of inter-class subsidies as measured against any Commission-approved Cost of Service Studies in these cases.

Base Demand Ratchets

Q. WHAT WERE THE COMPANIES PROPOSED STRUCTURAL CHANGES TO THE TIME-OF-DAY RATES UNDER WHICH WALMART PRIMARILY TAKES SERVICE?

A. The Companies proposed to modify the based demand ratchets, raising them from the current 75% to 100%.
Q. DID YOU ADDRESS WALMART'S ISSUES WITH THESE CHANGES IN YOUR DIRECT TESTIMONIES FILED EARLIER IN THESE CASES?

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

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

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

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

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

At the proposed rates, over the first year, the total lost benefit for KU customers taking service on Time of Day Secondary service is $3.24 per kW for 12 months or $38.88 per kW. At LG&E the lost benefit for those customers totals $58.08 per kW ($4.84 per kW each month for 12 months.) The impact of these changes on the
economics of projects will extend the payback period and could prevent customers from implementing projects that might otherwise be completed.

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

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

Conclusion

Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?

A. Yes.
VERIFICATION

STATE OF ARKANSAS
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 12 day of April 2017.

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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