Louisville Gas and Electric Company
Docket No. 2016-00371

United States Department of Defense and all other Federal Executive Agencies' Responses to Louisville Gas and Electric Company's First Request For Information

RFI No. 1:

Provide a copy of all notes, data, and workpapers prepared by, or on behalf of, Mr. Selecky in connection with this proceeding. If any Excel spreadsheets or other computer generated documents were prepared by or on behalf of Mr. Selecky, please provide an electronic version of those documents with all formulas intact.

Responsible Witness: James T. Selecky

Response:

Mr. Selecky relied on discovery responses along with his general knowledge of utility rate making to develop his testimony. Also, please see Attachment 1-Public.

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RFI No. 2:

Provide all cost support or other analysis to support the 50% factor shown on line 9 of Exhibit JTS-1.

Responsible Witness: James T. Selecky

Response:

As indicated in response to Data Request No. 10 to DoD/FEA, LG&E responded that less than 1% of the Time-of-Day Primary customers takes service at 34.5 kV. That meant that there was likely only one customer who took service at 34.5 kV and all of the other customers take service at a lower primary voltage levels. Also, the data response stated that one customer is known to receive a transformation from 34.5 kV to 2,400/4,160V indicating that the 34.5 kV systems is also used by the lower primary voltage customers. Because Mr. Selecky did not have specific cost analysis for the cost of the 34.5 kV included in the distribution charges, Mr. Selecky conservatively estimated that 50% of the distribution related costs would not apply to customers who are taking service at 34.5 kV.

It also should be noted that utilities that separate voltage level charges by transmission, sub transmission and primary would classify 34.5 kV as sub transmission. In those instances, the sub transmission charges are lower. This is the case for Consumers Energy and DTE Electric. Also, Jersey Power and Light classifies 34.5 kV as transmission customers. These factors also supported my belief that the 34.5 kV customers should pay lower distribution charges than the primary customers.

RFI No. 3:

Please explain whether the 50% factor shown on line 9 of Exhibit JTS-1 was based on a detailed cost analysis of the cost per kW of the 34 kV system.

Responsible Witness: James T. Selecky

Response:

Mr. Selecky did not have the data to perform a detailed analysis supporting the 50% factor. Mr. Selecky relied on the information contained in his direct testimony to support his position. Also, see response to RFI No. 2.

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RFI No. 4:

Refer to Exhibit CCW-18 at page 4 of 4. Please provide a complete copy of the information described in the footer as "Standard and Poors Global Credit Portal, downloaded November 18, 2016."

Responsible Witness: Christopher C. Walters

Response:

Please refer to the attachments provided in response to Staff RFI No. 8.

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RFI No. 5:

Please provide copies of all electronic files used in the preparation of Mr. Walters' testimony exhibits with all data and formulas intact.

Responsible Witness: Christopher C. Walters

Response:

Please refer to the attachments provided in response to Staff RFI No. 8.

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RFI No. 6:

Please provide copies of all articles, publications, and other sources documents referenced in Mr. Walters' testimony and exhibits.

Responsible Witness: Christopher C. Walters

Response:

Please refer to the attachments provided in response to Staff RFI No. 8.

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RFI No. 7:

Please provide a complete explanation for Mr. Walters' decision to exclude authorized common equity ratios decided in Arkansas, Florida, Indiana, and Michigan from the analysis shown on page 26, Table 5. Please provide a complete list of all data excluded by Mr. Walters on this basis.

Responsible Witness: Christopher C. Walters

Response:

The four jurisdictions excluded from the analysis presented in Table 5 were excluded because ratemaking capital structures in those jurisdictions include no-cost capital items including, but not limited to, customer deposits, accumulated deferred income taxes, and investment tax credits. The effect of including these no-cost capital items is a lower ratemaking common equity ratio. LG&E does not include these no cost capital items in its capital structure, and thus, would not be an "apples to apples" comparison.

Mr. Walters excluded all authorized common equity ratios from the listed jurisdictions over the study period. Mr. Walters does not have the excluded data in his possession.

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RFI No. 8:

Is Mr. Walters aware of any investment analyst reports that advise investors to consider growth in GDP as a ceiling on the long-run growth rate for an electric utility or gas utility stock, or specifically references expected growth in GDP in developing its expectations or advising investors as to the utility's future prospects? If so, please provide copies of all such reports.

Responsible Witness: Christopher C. Walters

Response:

As a matter of principle, no company's earnings and/or dividends can grow faster than the economy in which it sells goods and services into perpetuity. In the long-run, earnings growth will be limited by several factors, including, but not limited to, competition and market saturation.

As the CFA Institute has stated (see Confidential Attachment 8a):

> For earnings growth to exceed GDP growth, the ratio of corporate profits to GDP must trend upward over time. It should be clear that the share of profits in GDP cannot rise forever. At some point, stagnant labor income would make workers unwilling to work and would also undermine demand, making further profit growth unsustainable. Thus, in the long run, real earnings growth cannot exceed the growth rate of potential GDP.

Also, Dr. Morin states the following in his book, "New Regulatory Finance" (see Confidential Attachment 8b):

> "It is useful to remember that eventually all company growth rates, especially utility services growth rates, converge to a level consistent with the growth rate of the aggregate economy."

Further, Dr. Morin continues to state (see Confidential Attachment 8b):

RFI No. 8 – Response (CONTINUED):

> "[…] it is quite possible that a company's dividends can grow faster than the general economy for five years, but it is quite implausible for such growth to continue into perpetuity."

Additionally, please refer to the discussion of the multi-stage DCF in Mr. Walters' testimony.

VERIFICATION

STATE OF MISSOURI)
) SS:
COUNTY OF ST. LOUIS)

The undersigned, **James T. Selecky,** being duly sworn, deposes and says that he is a Principal of Brubaker & Associates, Inc., and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

James Selecky
James T. Selecky

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 30th day of March 2017.

Maria E. Decker
Notary Public

My commission Expires: May 5, 2017

MARIA E. DECKER
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis City
My Commission Expires: May 5, 2017
Commission # 13706793

VERIFICATION

STATE OF MISSOURI)
) SS:
COUNTY OF ST. LOUIS)

The undersigned, **Christopher C. Walters,** being duly sworn, deposes and says that he is a Consultant of Brubaker & Associates, Inc., and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

C. C. Walters
Christopher C. Walters

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 30th day of March 2017.

Maria E. Decker
Notary Public

My commission Expires: May 5, 2017

MARIA E. DECKER
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis City
My Commission Expires: May 5, 2017
Commission # 13706793