Verification

The undersigned, Kevin Kramer, being duly sworn, certifies that he is a City Councilman for Louisville/Jefferson County metro Government, and that the Responses to Requests for Information contained herein are true and accurate to the best of his knowledge, information, and belief formed after a reasonable inquiry.

Kevin Kramer
(name)

STATE OF KENTUCKY)
)
COUNTY OF Jefferson)

SUBSCRIBED AND SWORN to before me by (name) in the aforesaid state and county on the 23 day of March, 2017.

My commission expires 1-23-18

Notary Public

Verification

The undersigned, Bill Hollander, being duly sworn, certifies that he is a City Councilman for Louisville/Jefferson County metro Government, and that the Responses to Requests for Information contained herein are true and accurate to the best of his knowledge, information, and belief formed after a reasonable inquiry.

Bill Hollander

(name)

STATE OF KENTUCKY)
)
COUNTY OF Jefferson)

SUBSCRIBED AND SWORN to before me by (name) in the aforesaid state and county on the 24th day of Mar., 2017.

My commission expires Oct. 4, 2017

Tracy Gaines

Notary Public

#498389

Verification

The undersigned, Jeffry Pollock, being duly sworn, certifies that the Responses to Requests for Information contained herein are true and accurate to the best of his knowledge, information, and belief and were formed after a reasonable inquiry.

Jeffry Pollock

STATE OF MISSOURI)
)
COUNTY OF ST. LOUIS)

SUBSCRIBED AND SWORN to before me by Jeffry Pollock in the aforesaid state and county on the 30th day of March, 2017.

My commission expires April 25, 2019.

KITTY TURNER
Notary Public - Notary Seal
State of Missouri
Commissioned for Lincoln County
My Commission Expires: April 25, 2019
Commission Number: 15390610

Notary Public – Kitty Turner

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
Louisville Metro Responses to Requests for Information from PSC

QUESTION NO. 1

PAGE 1 OF 1

Refer to the Direct Testimony of Louisville City Councilman Bill Hollander ("Hollander Testimony"), page 4, and the Direct Testimony of Louisville City Councilman Kevin Kramer ("Kramer Testimony"), page 3.

a. Clarify whether Louisville Metro has the same concern regarding the increase to the gas residential fixed charge as it does with the electric residential fixed charge.

b. State whether Louisville Metro recommends that all of any electric and gas revenue increases allocated to the residential class be recovered through the energy charges, or that some portion of revenue increases could be recovered through the fixed charges.

RESPONSE:

a. As Council members, we hold the same concerns for the gas residential fixed charges as we do with the electrical fixed charge.

b. Louisville Metro recommends, in this instance, that any increase to revenue allocated to the residential class should be recovered exclusively through the energy charges. The residential fixed charges were not modified in the previous case and LG&E experienced no negative consequences as a result. The potential harm to residential customers vastly outweighs the mere preference of LG&E to allocate the revenue requirement primarily to the fixed charges.

RESPONDING WITNESSES:
Councilmen Hollander and Kramer

QUESTION NO. 2

Refer to the Direct Testimony of Jeffry Pollock ("Pollock Testimony"), page 11. lines 9 and 10, which state “Further, if properly implemented. it would not violate generally accepted accounting principles." Explain what the proper implementation of the amortization of the surplus depreciation entails.

RESPONSE:

A short amortization period for surplus depreciation is effectively a mid-course correction to re-establish a reasonable allocation of capital recovery to the customers using the electrical facilities. It is considered an acceptable practice by NARUC Subcommittee on Depreciation, as discussed in its *Depreciation Practices Manual* at pages 187-189 (attached to this response).

Implementation requires temporarily reducing the depreciation rate(s) for applicable functions (*i.e.*, steam production, hydro production, other production, transmission, distribution, general and intangible plant), which reduces depreciation expense. The lower depreciation expense will slow the increase in accumulated depreciation so that it will eventually converge to the theoretical depreciation reserve for the applicable functions. Temporarily reducing depreciation expense allows the utility to recover increases in other (non-depreciation related) costs while keeping revenues and earnings constant.

Mr. Pollock made similar proposals in regulatory proceedings in Florida and Minnesota, which were adopted by these commissions. He also supported the use of surplus depreciation by Alabama Power Company to mitigate future rate increases and by Georgia Power Company to avert filing a rate case. The Alabama, Florida, Georgia and Minnesota commissions all follow generally accepted accounting principles.

RESPONDING WITNESSES:
Jeffery Pollock

QUESTION NO. 3

Refer to the Pollock Testimony. Exhibit JP-1. Explain the basis of the theoretical reserve listed in the exhibit and provide its source.

RESPONSE:

The theoretical reserve amounts by function were calculated by summing Production Unit and FERC account level amounts listed in Part IX of LG&E's depreciation study (Exhibit-JJS-LGE-1). The theoretical reserve amounts are the "Calculated Accrued" amounts listed on the reports in Part IX. These amounts are listed by vintage and total and represent the theoretical reserve levels based on LG&E's proposed lives and net salvage at December 31, 2015.

RESPONDING WITNESSES:
Jeffery Pollock

QUESTION NO. 4

Refer to the Pollock Testimony, Exhibit JP-9, page 2, Exhibit JP-11, Exhibit JP-13, and Exhibit JP-15. Confirm that Louisville Metro is recommending a shift in revenue allocation from non-residential classes to the residential class, resulting in: 1) a recommended electric residential increase of $56.340 million, or 61.4 percent of Louisville Gas and Electric Company's ("LG&E") proposed $91.720 million increase, as compared to the proposed increase in LG&E's application of $42.132 million, or 46 percent of the proposed increase in electric revenues; and 2) a recommended gas residential increase of $13.97 million, or 100 percent of LG&E's proposed $13.97 increase, as compared to the proposed increase in LG&E's application of $10.631 million, or 76 percent of the proposed increase in gas revenues.

RESPONSE:

Louisville Metro’s recommended electric and gas revenue allocations are designed to move all rates closer to cost under LG&E’s electric and gas class cost-of-service studies, as compared to LG&E’s revenue allocations, which would move electric rates 47% farther from cost and gas rates only 5% closer to cost. This includes the Louisville Metro accounts that are taking service on residential tariffs. In both instances, the residential class is the largest single customer class, and residential electric and gas rates are below cost. Naturally, this means that the residential class would receive a larger share of the increase than proposed by LG&E and the largest percentage share of LG&E’s proposed electric and gas revenue increases of any class. The amounts stated in the question are mathematically correct.

RESPONDING WITNESSES:
Jeffery Pollock

QUESTION NO. 5

Refer to the Direct Testimony of Kentucky Industrial Utility Customers, Inc.'s ("KIUC") witness Lane Kollen ("Kollen Testimony"), beginning at page 27, regarding depreciation expense related to projected net terminal salvage value for generation assets.

a. What position does Louisville Metro have with respect to the Kollen Testimony which requires the projected terminal net salvage value be removed from generation asset depreciation rates and expense?

b. State whether Louisville Metro is of the opinion that, should the Commission deny Mr. Kollen's proposal to remove the terminal net salvage value from generation asset depreciation rates and expense, it would create an intergenerational inequity with respect to the recovery of depreciation expense on generation assets.

c. Explain how Louisville Metro would reconcile its position on surplus depreciation with Mr. Kollen's proposal to remove projected terminal net salvage value from generation asset depreciation rates and expense if both proposals were approved by the Commission.

RESPONSE:

a. Louisville Metro is reviewing Mr. Kollen’s recommendation and does not have an opinion at this time.

b. Louisville Metro does not believe that an explicit adjustment to a utility’s proposed depreciation rate necessarily means that the cost of removal is not being recovered. Accordingly, the proposed adjustment may or may not necessarily impact generational equity.

c. Terminal net salvage is normally a legitimate component in determining the appropriate depreciation rates assuming that there is no other mechanism for recovering plant dismantlement costs. In either circumstance, the amount to be recovered must be well documented in a comprehensive study of each facility that determines the scope, timing and estimated net removal cost of any required dismantlement activities. The mere fact that no allowance is made for terminal net salvage in setting depreciation rates does not necessarily create intergenerational inequity if the proposed allowance is not properly supported.

RESPONDING WITNESSES:
Jeffery Pollock

QUESTION NO. 6

Given the Hollander and Kramer Testimonies and the Pollock Testimony referenced above:

a. Provide Louisville Metro's recommended electric and gas residential fixed charges and energy charges, assuming the $91.720 million electric and the $13.97 million gas revenue increase proposed in LG&E's application.

b. Provide Louisville Metro's recommended electric and gas residential fixed charges and energy charges, assuming 50 percent of the electric and gas revenue increases proposed by LG&E.

RESPONSE:

a. See response to PSC 1-1 above.

b. See response to PSC 1-1 above.

RESPONDING WITNESSES:
Councilmen Hollander and Kramer

QUESTION NO. 7

Refer to the Direct Testimony of J. Randall Woolridge, Ph.D. ("Woolridge Testimony"), page 24, lines 17-21. Explain why Dr. Woolridge develops three proxy groups instead of just one proxy group consisting of utilities that offer both gas and electric.

RESPONSE:

Dr. Woolridge includes the gas proxy group to assess the risk and return of gas companies as opposed to electric companies.

RESPONDING WITNESSES:
Dr. J. Randall Woolridge

QUESTION NO. 8

Refer to the Woolridge Testimony, Exhibit JRW-4, page 1 of 3.

a. Refer to Panel A, Electric Proxy Group, and Panel 8, McKenzie Proxy Group. Explain why the AG's proposed return on equity ("ROE") of 8.75 percent for LG&E electric utility operations is representative of investors' expectations, given that the average earned ROE for electric utilities is 9.5 percent and for combination electric and gas utilities, as shown in Panel 8, is 9.8 percent.

b. Refer to Panel C, Gas Proxy Group. Explain why the AG's proposed ROE of 8.7 percent for LG&E gas utility operations is representative of investors' expectations, given that the average earned ROE for gas utilities is 9.2 percent.

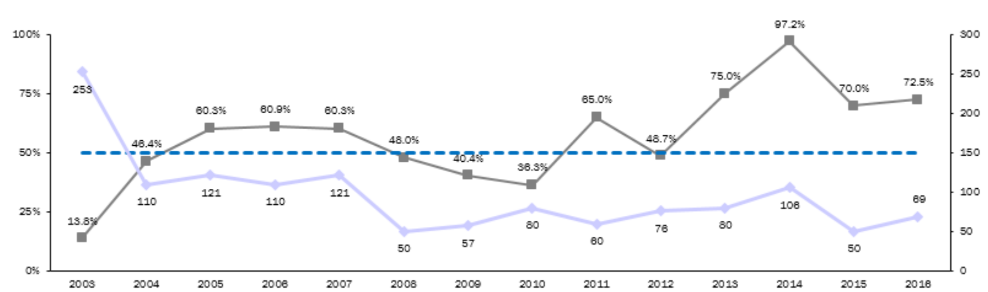
RESPONSE:

a. As shown in page 3 of Exhibit JRW-7, electric utilities have been earning a ROE of about 9.0% in recent years (current median value of 9.1% in Panel A of Exhibit JRW-4). Dr. Woolridge has relied primarily on the DCF approach which directly measures the expected return on a stock with the dividend yield and expected growth. And the current numbers are a little below 9.0%. Nonetheless, electric utilities, earning a ROE of about 9.0% in recent years, produced an average stock return last year, on average, of about 16%. In addition, as shown in the EEI data below, the ratings actions of S&P, Moody's, and Fitch have been predominantly up in recent years. And finally, electric utilities have been raising about $50B a year in capital. Therefore, Dr. Woolridge's ROE recommendation appears more than adequate to meet investor's return requirement.

Direction of Ratings Actions

U.S. Shareholder-Owned Electric Utility Industry

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Upgrades	21	35	51	73	67	73	24	23	29	39	37	60	103	35	50
Downgrades	279	218	59	48	43	48	26	34	51	21	39	20	3	15	19
% Upgrades	7.0%	13.8%	46.4%	60.3%	60.9%	60.3%	48.0%	40.4%	36.3%	65.0%	48.7%	75.0%	97.2%	70.0%	72.5%
Total Rating Activity	**300**	**253**	**110**	**121**	**110**	**121**	**50**	**57**	**80**	**60**	**76**	**80**	**106**	**50**	**69**
Upgrades = Downgrades	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%



b. See response to a. The earned ROEs for gas companies are also in the 9.0% range, and the same arguments that apply to electric companies in a. are appropriate for gas companies.

RESPONDING WITNESSES:
Dr. J. Randall Woolridge

QUESTION NO. 9

Refer to the Woolridge Testimony, page 48, lines 1-9, which discuss that it is common for analysts to adjust the dividend yield by some fraction of the long-term expected growth rate, and state that the growth rate is adjusted by one-half. Explain why one-half was chosen.

RESPONSE:

As Dr. Woolridge explains in his testimony, according to the traditional DCF model, the dividend yield term relates to the dividend yield over the coming period. As indicated by Professor Myron Gordon, who is commonly associated with the development of the DCF model for popular use, this is obtained by: (1) multiplying the expected dividend over the coming quarter by 4, and (2) dividing this dividend by the current stock price to determine the appropriate dividend yield for a firm that pays dividends on a quarterly basis.[1]

However, most companies pay dividend quarterly. In such as case, the dividend over the next year may or may not be equal to D0 * (1+g). The primary determinant is when the company increases the quarterly dividend. And this can be complicated because firms tend to announce changes in dividends at different times during the year. It the increase is expected to occur at the next quarterly dividend, the the (1+g) adjustment is appropriate. However, if the increase is not expected to occur until another quarter in the future (q+1, q+2, or q+3), then the expected dividend in the coming year is some fraction less than the (1+g). Consequently, it is common for analysts to adjust the dividend yield by some fraction of the long-term expected growth rate. The most common such adjustment, which is what Dr. Woolridge has done, is to adjust the dividend yield by one-half (1/2) of the expected growth so as to reflect growth over the coming year. This is the approach employed by the Federal Energy Regulatory Commission (“FERC”).[2]

RESPONDING WITNESSES:
Dr. J. Randall Woolridge

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[1] *Petition for Modification of Prescribed Rate of Return*, Federal Communications Commission, Docket No. 79-05, Direct Testimony of Myron J. Gordon and Lawrence I. Gould at 62 (April 1980).
[2] Opinion No. 414-A, *Transcontinental Gas Pipe Line Corp.*, 84 FERC ¶61,084 (1998).

QUESTION NO. 10

Refer to the Woolridge Testimony, Exhibit JRW-10.

a. Refer to page 2 of 6.
   (1) Provide a copy of the source documents for the annual dividends and 30-, 90-, and 180-day dividend yields.
   (2) If any of the above is calculated, provide the calculations.
b. Refer to pages 3-5 of 6.
   (1) Explain why negative growth rates were included in the calculation of mean values.
   (2) Explain why the median values produce more meaningful estimates than mean values.
   (3) Explain why averaging median values produces meaningful estimates.

RESPONSE:

a. (1) The requested data are being uploaded separately in the "Electric Proxy Group – Dividend Yields 1-27-17" file.
   (2) The requested calculations are being uploaded separately in the "Electric Proxy Group – Dividend Yields 1-27-17" dividend yield file.

b. (1) Negative growth rates were included in the analysis since negative growth does occur for some companies in the future and therefore the potential for negative growth is part of the expected outcome and therefore must be reflected in the distribution of potential outcomes.
   (2) As explained in the testimony, the median is used as a measure of central tendency to minimize the impact of outliers.
   (3) Since the impact of outliers has been minimized by the medians, Dr. Woolridge takes a simple average of the medians to arrive at an indicator of central tendency.

RESPONDING WITNESSES:
Dr. J. Randall Woolridge

QUESTION NO. 11

Provide the most recently authorized ROE awards for the Louisville Metro's proxy groups, and the dates they were awarded.

RESPONSE:

Dr. Woolridge does not have the requested information and did not use this information in the preparation of his testimony.

RESPONDING WITNESSES:
Dr. J. Randall Woolridge