COMMONWEALTH OF KENTUCKY

BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY POWER COMPANY FOR (1) A GENERAL ADJUSTMENT OF ITS RATES FOR ELECTRIC SERVICE; (2) AN ORDER APPROVING ITS 2017 ENVIRONMENTAL COMPLIANCE PLAN; (3) AN ORDER APPROVING ITS TARIFFS AND RIDERS; (4) AN ORDER APPROVING ACCOUNTING PRACTICES TO ESTABLISH REGULATORY ASSETS AND LIABILITIES; AND (5) AN ORDER GRANTING ALL OTHER REQUIRED APPROVALS AND RELIEF	)	Case No. 2017-00179

<u>KENTUCKY CABLE TELECOMMUNICATIONS ASSOCIATION'S</u>

<u>RESPONSES TO THE COMMISSION STAFF'S DATA REQUESTS</u>

The Kentucky Cable Telecommunications Association hereby provides the following verified responses to the Commission Staff's Data Requests.

REQUEST 1. Refer to the Direct Testimony of Patricia D. Kravtin ("Kravtin Testimony"), page 13, Table 1, which applied a 30 percent carrying charge in calculating pole attachment rates. Also refer to Kravtin Testimony, page 18, Table 3, which applied the 36.10 percent carrying charge that was calculated by Kentucky Power Company ("Kentucky Power") in determining its proposed pole attachment rate.

a. Provide the source of and calculation for the 30 percent carrying charge used in Table 1.

b. Explain why a 30 percent carrying charge was applied in Table 1, but the 36.10 percent carrying charge was applied in Table 3.

RESPONSE 1. (a) As the title of Table 1 of Ms. Kravtin's Direct Testimony describes, the numerical example presented in Table 1 is represented as an "illustrative example" to demonstrate the convergence of two and three user pole attachment rates, when two and three user cost relationships such as found in data routinely reported by KPCO's peer Kentucky utilities (i.e., KU and LG&E) are applied in combination with the KPSC's two and three user specific space allocation factors. As explained in Ms. Kravtin's testimony (see pp. 5, 11), KPCO does not maintain pole records at the level of detail required to calculate disaggregated two and three user per unit pole costs pursuant to the KPSC rate methodology. Given the unavailability of actual KPCO two and three user pole cost and quantity data, Ms. Kravtin is not able to calculate the actual two and three user rate convergence using KPCO data. Table 1 of Ms. Kravtin's Direct Testimony provides an illustrative example of the convergence in two and three user rates, based on an aggregate $250 average net bare pole cost and a 30% carrying charge factor ("CCF"). While the $250 net bare pole cost and 30% CCF figures are illustrative rather than actual utility figures, they are in Ms. Kravtin's opinion, representative of amounts generally applicable to public utility pole attachments based on Ms. Kravtin's over thirty years of experience with these matters.

1. (b) See response to (a) above. Given the unavailability of actual KPCO two and three user specific per unit pole cost figures, there is no particular basis to apply the KPCO specific CCF figure of 36.10% for the purposes of Table 1. As explained above in response to part (a) of this request above, the purpose of Table 1 is to demonstrate numerically the convergence of two and three user rates when disaggregated two and three user costs are applied in combination with the KPSC's two and three user specific space allocation factors, and accordingly, why KPCO's

application of the KPSC's two and three user specific space allocation factors to an aggregate 364 pole cost figure is demonstratively incorrect.

REQUEST 2. Refer to the Kravtin Testimony, page 17, Table 2. Provide the source and calculation for the Handy Whitman Index for Public Utility Pole Construction ("HWI") 23 percent rate of cost growth used in KCTA's analysis.

RESPONSE 2. The source and calculation for the Handy Whitman Index for Public Utility Pole Construction ("HWI") 23 percent rate of cost growth estimate used in Ms. Kravtin's analysis is described in footnote 21 of her testimony, found at the bottom of page 15, continuing onto page 16. See also KCTA_R_KPSC_1_2_Attachment 1 and KCTA_R_KPSC_1_2 Attachment 2 to this Response:

KCTA_R_KPSC_1_2_Attachment 1 provides a copy of the source data for the HWI estimate identified in footnote 21 of Ms. Kravtin's testimony. The identified source data is from "The Handy-Whitman Index of Public Utility Construction Costs," Cost Trends of Electric Utility Construction, Bulletin No. 177, dated from January 2013, for the South Atlantic Region, as published by Whitman, Requardt, and Associates, LLP, 801 South Caroline Street, Baltimore, Maryland 21231; all rights reserved.

KCTA_R_KPSC_1_2 Attachment 2 provides the worksheet (in its native electronic xlsx format) corresponding to the calculation of the 23 percent rate of cost growth estimate identified in footnote 21 of Ms. Kravtin's testimony.

REQUEST 3. Explain whether the HWI index provides for the full allocation of the costs of furnishing pole attachment services.

RESPONSE 3. The HWI is a cost index applicable to the cost of *new* or current utility pole construction, whereas KPCO's fully allocated cost of furnishing pole attachment services is based on KPCO's *embedded base* or historical pole costs as recorded on the utility's books of account. Because poles are very long-lived assets, KPCO's carries on its books of account pole costs that pertain to vintages of pole plant placed in service decades ago – not just current vintages of pole plant. Accordingly, as explained in Ms. Kravtin's testimony (see p. 16) and based on Ms. Kravtin's over thirty years of experience with these matters, the estimated cost growth as reflected in the HWI for the 2006-2016 period would provide the utility with recovery of more than the full allocation of the costs of furnishing pole attachment services.

REQUEST 4. Refer to the Kravtin Testimony at page 18.

a. Provide a comparison of the impact on pole attachment revenues based upon the Kentucky Power proposal and the KCTA methodology.

b. Explain whether changes to the pole attachment rate methodology proposed by Dr. Kravtin will result in Kentucky Power's under-recovering its pole attachment costs.

RESPONSE. 4. (a) See KCTA_R_KPSC_1_4a_Attachment 1 to this Response. KCTA_R_KPSC_1_4a_Attachment 1 shows the impact on pole attachment revenues of the KCTA proposal versus the KPCO proposal is a miniscule percent (.04%) of KPCO's electric revenues.

4. (b) The application of the KPSC pole rate formula and the resultant composite rate of $7.42 proposed by Ms. Kravtin will not result in KPCO's under-recovering its pole attachment costs. In her testimony, Ms. Kravtin explains many reasons why this is so, including:

First, as explained in Ms. Kravtin's Direct Testimony (see pp. 4, 19), under the KPSC pole rate methodology, KPCO has not one, but *two* sources of recovery for the costs of hosting pole attachments of CATV and other third-party communications providers. *In addition to* the cost recovery provided by the annual pole attachment rental fee, KPCO also receives full cost recovery for any and all out of pocket costs incurred by KPCO in connection with hosting attachments in the form of make ready and other direct reimbursement fees. This latter source of cost recovery provides KPCO with full recovery of the true economic or "but for" costs of hosting attachments, i.e., costs that but for the attachment would not exist. The recurring annual pole rental rate, as a fully allocated rate, by definition and in practice, provides the utility with recovery of its fixed overhead costs for the occupancy of otherwise excess or vacant space on utility poles. That is on top of all the "but for" costs the utility recovers in the make ready and other direct reimbursement type fees. Given that KPCO recovers all its non-recurring "but for" costs plus a fully allocated portion of its fixed overhead costs, there can be no valid economic claim of under recovery of pole attachment costs. Indeed, as shown in KPCO_R_KCTA_2_25 reproduced in Exhibit PDK-5, KPCO collected over $2.7-million in additional make ready and other non-recurring charges from cable operators in addition to pole attachment rental payments in 2016.

Second, as explained in Ms. Kravtin's Direct Testimony (see pp. 7, 20), the recommended composite pole rate of $7.42 provides KPCO with an increase in cost recovery for the 2006 – 2016 period that is comparable to (if not greater than) the rate of $6.98 that Ms. Kravtin derived based on the estimated change in the widely used HWI cost index estimated for that period. As explained in response to the previous request, the HWI provides a more than compensatory measure of pole cost inflation as applied to KPCO's embedded or historical cost base.

Third, as explained in Ms. Kravtin's testimony (see pp. 4, 12-16), the increased level of cost recovery (i.e., 66% aggregate increase across-the-board) that KPCO is seeking to obtain from its proposed pole attachment rates is based on KPCO's *incorrect* application of the KPSC's pole rate methodology and does not represent a just and reasonable amount of pole attachment cost recovery for KPCO. Accordingly, KPCO's proposed level of cost recovery does not provide a reliable economic benchmark or basis upon which to compare an alternative or lower amount of pole attachment cost recovery such as proposed by the KCTA. In addition to KPCO's incorrect application of the KPSC's methodology, Ms. Kravtin also cites in her testimony (see pp. 15-16) the ten-year gap between cost setting and the various intercompany service billing arrangements that may be affecting pole costs over the period as additional reasons why the KPSC should rely on other objective benchmarks such as the commonly used HWI cost index, as well as the current rates for KPCO's peer utilities KU and LG&E which were recently set.

Respectfully submitted,

By /s/ Laurence J. Zielke

Laurence J. Zielke
Janice M. Theriot
Zielke Law Firm, PLLC
1250 Meidinger Tower
462 South 4th Street
Louisville, KY 40202
(502) 589-4600
Lzielke@zielkefirm.com
jtheriot@zielkefirm.com

ATTORNEYS FOR THE KENTUCKY CABLE TELECOMMUNICATIONS ASSOCIATION

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the forgoing Kentucky Cable Telecommunications Association's Responses to Staff Data Requests has been served on all parties of record electronically on this the 27th day of October 2017.

/s/ Janice M. Theriot
Janice M. Theriot