

COMMONWEALTH OF KENTUCKY
BEFORE THE 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

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

Filed: July 21, 2017

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION FOR**
2 **THE RECORD.**

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

6

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

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

10

11 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

12 A. In its July 12, 2017 Order, the Kentucky Public Service Commission ("PSC" or
13 "Commission") established a Hearing to receive testimony in support of Motions to
14 Intervene filed by Walmart and other parties. In accordance with that Order, I am testifying
15 in support of Walmart's requested intervention in this case. As requested by the
16 Commission, I hope to provide further justification for Walmart's participation in this case
17 as a full party. To that end, Walmart has elected to pre-file my testimony in an effort to
18 assist that determination.

19

1 **Q. HAS WALMART PREVIOUSLY PARTICIPATED AS A PARTY IN OTHER**
2 **PROCEEDINGS BEFORE THIS COMMISSION?**

3 A. Yes. Based on my review, Walmart has been an active party in at least six Commission
4 proceedings. Walmart was a party in the two most recent Kentucky Power Company
5 ("Kentucky Power" or "Company") rate cases at Case Nos. 2014-00396 and 2013-00197.
6 Most recently, Walmart was a party in the general rate cases initiated by Kentucky Utilities
7 Company ("KU") and Louisville Gas and Electric Company ("LG&E") at Case Nos. 2016-
8 00370 and 2016-00371.

9
10 **Q. DID WALMART FILE A MOTION TO INTERVENE IN THIS PROCEEDING?**

11 A. Yes. Walmart filed its Motion to Intervene in this case on June 12, 2017.
12

13 **Q. WHY DID WALMART SEEK FULL INTERVENTION IN THIS CASE?**

14 A. Walmart owns and operates many stores and supporting facilities throughout Kentucky and
15 purchases significant amounts of energy annually in Kentucky. These purchases constitute
16 one of the highest single costs to Walmart's operations in the state.

17
18 Monopoly utility service such as that provided by Kentucky Power Company, unlike most
19 if not all other products and services purchased by Walmart in the course of our business,
20 does not require the vendor to negotiate price and term with us prior to establishing service.
21 Instead, Walmart is relegated to the status of captive price-taker, as are all other customers.
22

1 Rate-setting proceedings such as this case are important venues for customers to advocate
2 and influence the price and terms of service, as it is ultimately the customers who will bear
3 the burden on their monthly bills of the decisions made in the proceeding. In order to
4 manage cost exposure from rate-setting and other regulatory proceedings, Walmart
5 employs a team of five associates with over 70 years of combined utility operations, rates,
6 and regulatory experience and over the past decade has participated in over 300 regulatory
7 dockets.

8
9 **Q. CAN YOU PLEASE PROVIDE AN OVERVIEW OF WALMART'S OPERATIONS**
10 **AND ELECTRICITY CONSUMPTION LEVELS IN THE COMMONWEALTH**
11 **AND WITHIN THE KENTUCKY POWER TERRITORY?**

12 A. Yes. Walmart has 105 retail locations and 2 distribution centers in Kentucky; Kentucky
13 Power serves nine stores. We are the largest single employer in the Commonwealth, with
14 nearly 30,000 associates. Additionally, Walmart spent \$1.3 billion with 848 Kentucky-
15 based suppliers, supporting an additional 35,000 jobs. In our Fiscal year ending January
16 2017, Walmart purchased 409 million kWh from Kentucky suppliers, with 34 million kWh
17 purchased from Kentucky Power.

18
19 **Q. WHAT MAKES WALMART'S INTEREST IN THIS CASE UNIQUE?**

20 A. In addition to being the largest single employer in the state, Walmart is a unique customer
21 in that we are a single customer purchasing substantial amounts of energy for several
22 accounts at multiple locations. Unlike most other commercial customers, these accounts

1 include customers in Kentucky Power's LGS, IGS Secondary, IGS Primary, and IGS
2 Subtransmission rate classes, and unlike most other commercial customers, Walmart also
3 has a unique load profile, operating on these diverse rate schedules 24 hours a day at its
4 various locations. All of these accounts, locations, and operations are impacted by the
5 Company's proposed rate increases and the Commission's resolution of this proceeding.
6

7 **Q. IS WALMART'S UNIQUE INTEREST REPRESENTED BY ANY OTHER PARTY**
8 **IN THIS PROCEEDING?**

9 A. No. While I understand that the Attorney General is obligated to represent consumer
10 interests in general, there is no party in this case with the responsibility to represent
11 Walmart's unique interest. In fact, there are no parties in this case that would be inclined
12 to advocate fully for any large retail customers' interests.
13

14 **Q. WHY IS THE ATTORNEY GENERAL'S PARTICIPATION IN THIS CASE**
15 **INSUFFICIENT TO PROTECT WALMART'S INTEREST?**

16 A. Based on my limited experience in Kentucky, I believe that the Attorney General's office
17 does an excellent job of advancing the general interests of the citizens of Kentucky,
18 including the general interests of utilities' ratepayers. However, it is not clear to me that
19 the Attorney General's office would, or even should, advocate for Walmart's interests
20 beyond those that are general in nature and essentially equivalently impact all customer
21 interests, specifically, revenue requirement and return on equity ("ROE"). I believe that it
22 is impossible for a single party to effectively advance the general public interest while also

1 advocating for the particular, individual interests of parties within the various classes of
2 customers on the Company's system.

3
4 **Q. WHY IS THAT?**

5 A. It is not uncommon for various customer classes to have conflicting interests in rate
6 proceedings. For example, in terms of the allocation of a utility's overall revenues, it is
7 common for one or more classes of customers to be subsidizing the cost to serve other
8 customer classes. The various customer class advocates will have competing viewpoints
9 of what is a fair allocation of the revenue or the change in revenue.

10
11 Representatives from each customer class should have the opportunity to present a case
12 that advances each one's own perspective. In the words of Dr. Bonbright, "A fair rate
13 means whatever rate is in my self-interest." *See* Bonbright, J. C. (1961), *Principles of*
14 *Public Utility Rates* [1st ed.]. New York: Columbia University Press. p 126. Without the
15 knowledge of these various perspectives of fairness, the Commission's role of balancing
16 the interests of all parties would certainly be impacted.

17
18 **Q. WOULD THE PARTICIPATION OF A MORE BROADLY DEFINED**
19 **"COMMERCIAL" CUSTOMER INTEREST BE SUFFICIENT TO ADVOCATE**
20 **FOR WALMART'S INTERESTS?**

21 A. In my opinion, no. The potential class of "commercial" customers is vast, and encompasses
22 a number of rate schedules. Some commercial customers have usage characteristics and

1 interests more closely resembling the residential class, while other commercial customers
2 have characteristics and interests more akin to the industrial class. Walmart, especially
3 within the service we take from Kentucky Power, finds itself both on rates that are
4 associated with commercial customers (*e.g.*, LGS) and rates that lend themselves more
5 toward industrial class customers (*e.g.*, IGS).

6
7 It is possible for individual customers to participate in an intervention group, and Walmart
8 does utilize this strategy from time to time. However, for the group to effectively advocate
9 for the interests of its members, the group must have similarly situated customers with
10 shared goals and willingness to advocate. Additionally, and particularly important for this
11 proceeding, differences in geographical dispersion and facility load factor can provide
12 insurmountable obstacles to group advocacy, especially for cost of service, revenue
13 allocation, and rate design issues. The mix of Walmart's loads across Kentucky Power's
14 system essentially ensures that a single advocate could not represent our positions
15 adequately and without conflict on those topics while simultaneously representing one or
16 more other customers. As such, no commercial customer or group adequately represents
17 all of Walmart's interests.

18

1 **Q. WOULD INDUSTRIAL UTILITY CUSTOMER GROUPS BE SUFFICIENT TO**
2 **ADVOCATE FOR WALMART'S INTERESTS?**

3 A. Again, while there is some overlap in the interests of industrial customers with those of
4 Walmart, for all of the reasons already mentioned, the industrial customer advocates would
5 not, and should not be expected to, represent the breadth of Walmart's interests.

6

7 **Q. WILL THE TESTIMONY AND EVIDENCE OFFERED BY WALMART IN THIS**
8 **PROCEEDING ASSIST THE COMMISSION IN FULLY CONSIDERING THIS**
9 **MATTER?**

10 A. Yes. In every proceeding, Walmart attempts to provide evidence and testimony that
11 presents a reasoned and reasonable explanation of the perspective of a national large
12 retailer within the context of the specific case. While we are still in the process of
13 evaluating the Company's proposals in this particular proceeding, our evidence
14 traditionally relates to our perspective of just and reasonable rates of return and returns on
15 equity, commercial rate design, and overall cost and revenue allocation between the various
16 rate classes and within individual commercial rate classes amongst similarly-situated
17 customers.

18

19 Based on the facts presented in each case, Walmart often supports various proposals from
20 utilities, and often recommends adjustments or modifications that we believe produce a
21 just and reasonable result. Walmart also always participates in settlement discussions and

1 believes that achieving settlements in cases such as this one is an important objective,
2 where possible.

3
4 **Q. DO YOU BELIEVE, BASED ON THE COMMISSION'S RECENT ORDERS IN**
5 **THE KU AND LG&E RATE CASES, THAT WALMART PRESENTED**
6 **EVIDENCE IN THOSE CASES THAT FULLY SUPPORTED THE**
7 **COMMISSION'S CONSIDERATION OF THOSE CASES?**

8 A. Yes. The Commission was able to consider recent rate case decisions on allowed ROE of
9 other commissions nationwide provided by Regulatory Research Associates and
10 introduced into the record by Walmart. *See* Case No. 2016-00370, Direct Testimony and
11 Exhibits of Gregory W. Tillman, Exhibit GWT-4. According to the Commission's orders
12 in those cases, the Commission found it "appropriate" to use such information provided by
13 parties "to put [investors'] expectations in context." *In the Matter of: Electronic*
14 *Application of Kentucky Utilities Company for an Adjustment of Electric Rates and for*
15 *Certificates of Public Convenience and Necessity*, Case No. 2016-00370, Order (June 22,
16 2017), p. 17; *In the Matter of: Electronic Application of Louisville Gas and Electric*
17 *Company for an Adjustment of its Electric and Gas Rates and for Certificates of Public*
18 *Convenience and Necessity*, Case No. 2016-00371, Order (June 22, 2017), p. 19.

19
20 As a national commercial retailer, Walmart has significant experience with this national
21 perspective. Walmart traditionally presents such evidence in cases like these, and has done
22 so before this Commission, including in the LG&E and KU cases cited.

1 **Q. DO YOU BELIEVE THAT THE COMMISSION SHOULD GRANT WALMART'S**
2 **MOTION FOR FULL PARTY STATUS IN THIS CASE?**

3 **A.** Yes. For the reasons provided in our Motion to Intervene and as explained in more detail
4 here, I respectfully ask that the Commission approve our intervention. Specifically,
5 Walmart's interests are substantial and unique, and are not adequately represented by any
6 other party. Furthermore, Walmart certainly aims to assist the Commission in making its
7 final determination of just and reasonable rates for the Company and its ratepayers through
8 its participation in this case.

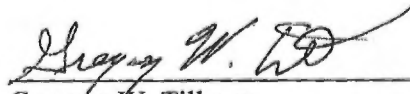
9
10 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

11 **A.** Yes.

VERIFICATION

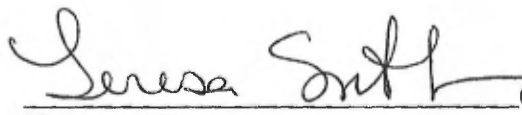
STATE OF ARKANSAS)
) SS:
COUNTY OF BENTON)

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.



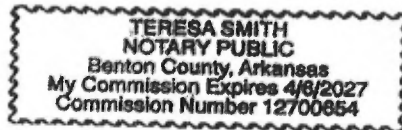
Gregory W. Tillman

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 20 day of July 2017.



Notary Public (SEAL)

My Commission Expires: 4/6/2027



CERTIFICATE OF SERVICE

I hereby certify that Walmart's July 21, 2017, electronic filing is a true and accurate copy of the Testimony in Support of Intervention 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 July 21, 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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