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

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. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. In its July 12, 2017 Order, the Kentucky Public Service Commission ("PSC" or "Commission") established a Hearing to receive testimony in support of Motions to Intervene filed by Walmart and other parties. In accordance with that Order, I am testifying in support of Walmart's requested intervention in this case. As requested by the Commission, I hope to provide further justification for Walmart's participation in this case as a full party. To that end, Walmart has elected to pre-file my testimony in an effort to assist that determination.
Q. HAS WALMART PREVIOUSLY PARTICIPATED AS A PARTY IN OTHER PROCEEDINGS BEFORE THIS COMMISSION?
A. Yes. Based on my review, Walmart has been an active party in at least six Commission proceedings. Walmart was a party in the two most recent Kentucky Power Company ("Kentucky Power" or "Company") rate cases at Case Nos. 2014-00396 and 2013-00197. Most recently, Walmart was a party in the general rate cases initiated by Kentucky Utilities Company ("KU") and Louisville Gas and Electric Company ("LG&E") at Case Nos. 2016-00370 and 2016-00371.

Q. DID WALMART FILE A MOTION TO INTERVENE IN THIS PROCEEDING?
A. Yes. Walmart filed its Motion to Intervene in this case on June 12, 2017.

Q. WHY DID WALMART SEEK FULL INTERVENTION IN THIS CASE?
A. Walmart owns and operates many stores and supporting facilities throughout Kentucky and purchases significant amounts of energy annually in Kentucky. These purchases constitute one of the highest single costs to Walmart's operations in the state. Monopoly utility service such as that provided by Kentucky Power Company, unlike most if not all other products and services purchased by Walmart in the course of our business, does not require the vendor to negotiate price and term with us prior to establishing service. Instead, Walmart is relegated to the status of captive price-taker, as are all other customers.
Rate-setting proceedings such as this case are important venues for customers to advocate and influence the price and terms of service, as it is ultimately the customers who will bear the burden on their monthly bills of the decisions made in the proceeding. In order to manage cost exposure from rate-setting and other regulatory proceedings, Walmart employs a team of five associates with over 70 years of combined utility operations, rates, and regulatory experience and over the past decade has participated in over 300 regulatory dockets.

Q. CAN YOU PLEASE PROVIDE AN OVERVIEW OF WALMART’S OPERATIONS AND ELECTRICITY CONSUMPTION LEVELS IN THE COMMONWEALTH AND WITHIN THE KENTUCKY POWER TERRITORY?

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

Q. WHAT MAKES WALMART’S INTEREST IN THIS CASE UNIQUE?

A. In addition to being the largest single employer in the state, Walmart is a unique customer in that we are a single customer purchasing substantial amounts of energy for several accounts at multiple locations. Unlike most other commercial customers, these accounts
include customers in Kentucky Power’s LGS, IGS Secondary, IGS Primary, and IGS Subtransmission rate classes, and unlike most other commercial customers, Walmart also has a unique load profile, operating on these diverse rate schedules 24 hours a day at its various locations. All of these accounts, locations, and operations are impacted by the Company's proposed rate increases and the Commission's resolution of this proceeding.

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

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

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

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

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

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

Q. WOULD THE PARTICIPATION OF A MORE BROADLY DEFINED "COMMERCIAL" CUSTOMER INTEREST BE SUFFICIENT TO ADVOCATE FOR WALMART'S INTERESTS?
A. In my opinion, no. The potential class of "commercial" customers is vast, and encompasses a number of rate schedules. Some commercial customers have usage characteristics and
interests more closely resembling the residential class, while other commercial customers
have characteristics and interests more akin to the industrial class. Walmart, especially
within the service we take from Kentucky Power, finds itself both on rates that are
associated with commercial customers (e.g., LGS) and rates that lend themselves more
toward industrial class customers (e.g., IGS).

It is possible for individual customers to participate in an intervention group, and Walmart
does utilize this strategy from time to time. However, for the group to effectively advocate
for the interests of its members, the group must have similarly situated customers with
shared goals and willingness to advocate. Additionally, and particularly important for this
proceeding, differences in geographical dispersion and facility load factor can provide
insurmountable obstacles to group advocacy, especially for cost of service, revenue
allocation, and rate design issues. The mix of Walmart's loads across Kentucky Power's
system essentially ensures that a single advocate could not represent our positions
adequately and without conflict on those topics while simultaneously representing one or
more other customers. As such, no commercial customer or group adequately represents
all of Walmart's interests.
Q. WOULD INDUSTRIAL UTILITY CUSTOMER GROUPS BE SUFFICIENT TO ADVOCATE FOR WALMART'S INTERESTS?

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

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

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

Based on the facts presented in each case, Walmart often supports various proposals from utilities, and often recommends adjustments or modifications that we believe produce a just and reasonable result. Walmart also always participates in settlement discussions and
believe that achieving settlements in cases such as this one is an important objective, where possible.

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

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

As a national commercial retailer, Walmart has significant experience with this national perspective. Walmart traditionally presents such evidence in cases like these, and has done so before this Commission, including in the LG&E and KU cases cited.
Q. DO YOU BELIEVE THAT THE COMMISSION SHOULD GRANT WALMART'S
MOTION FOR FULL PARTY STATUS IN THIS CASE?

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

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.
VERIFICATION

STATE OF ARKANSAS )
COUNTY OF BENTON ) SS:

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.

Teresa Smith
Notary Public

My Commission Expires: 4/4/2027
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:

Kentucky Power Company
855 Central Avenue, Suite 200
Ashland, KY 41101
rkwohnhas@aep.com

Ranie Wohhas
Managing Director
Kentucky Power Company
855 Central Avenue, Suite 200
Ashland, KY 41101
rkwohnhas@aep.com

Elizabeth Sekula, Esq.
Hector Garcia, Esq.
American Electric Power Service Corp.
1 Riverside Plaza, 29th Floor
P.O. Box 16631
Columbus, OH 43216
easekula@aep.com
garcial@aep.com

Mark R. Overstreet, Esq.
Katie M. Glass, Esq.
Stites & Harbison
421 West Main Street
P.O. Box 634
Frankfort, KY 40602-0634
movrstreet@stites.com
glass@stites.com

Kenneth J. Gish, Jr., Esq.
Stites & Harbison
250 West Main Street, Suite 2300
Lexington, KY 40507
kgish@stites.com

Rebecca W. Goodman, Esq.
Lawrence W. Cook, Esq.
Kent A. Chandler, Esq.
Office of the Attorney General
1024 Capital Center, Suite 200
Frankfort, KY 40601-8204
rebecca.goodman@ky.gov
larry.cook@ky.gov
kent.chandler@ky.gov

Michael L. Kurtz, Esq.
Kurt J. Boehm, Esq.
Jody Kyler Cohn, Esq.
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, Ohio 45202
MKurtz@bkllawfirm.com
kboehm@bkllawfirm.com
jkylercohn@bkllawfirm.com

Laurence J. Zielke, Esq.
Janice M. Theriot, Esq.
Zielke Law Firm, PLLC
1250 Meiding Tower
462 South 4th Street
Louisville, KY 40202
lzielke@zielkefirm.com
jtheriot@zielkefirm.com

Gregory T. Dutton, Esq.
Goldberg Simpson, LLC
9301 Dayflower Street
Louisville, KY 40059
GDutton@goldbergsimpson.com
Morgain Sprague, Esq.
Kentucky League of Cities
100 East Vine Street, Suite 800
Lexington, KY 40507
msprague@k1c.org

Matthew R. Malone, Esq.
William H. May, III, Esq.
Hurt, Deckard & May PLLC
127 West Main Street
Lexington, KY 40507
mmalone@hdmfirm.com
bmay@hdmfirm.com

David Leightty, Esq.
Ben Basil, Esq.
Priddy, Cutler, Naake & Meade, PLLC
2303 River Road, Suite 300
Louisville, KY 40202
Basil@pcnmlaw.com
dleightty@earthlink.net

James W. Gardner, Esq.
M. Todd Osterloh, Esq.
Sturgill, Turner, Barker & Moloney, PLLC
333 West Vine Street, Suite 1500
Lexington, KY 40507
jgardner@sturgillturner.com
tosterloh@sturgillturner.com

Mark David Goss, Esq.
David S. Samford, Esq.
M. Evan Buckley, Esq.
Goss Samford, PLLC
2365 Harrodsburg Road, Suite B-325
Lexington, KY 40504
mdgoss@gossamfordlaw.com
david@gossamfordlaw.com
ebuckley@gossamfordlaw.com

Dennis G. Howard, II, Esq.
Howard Law PLLC
740 Emmett Creek Lane
Lexington, KY 40515
dennishowardii@gmail.com

Don C. A. Parker (Kentucky I.D. No. 94113)