

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF)	
KENTUCKY UTILITIES COMPANY)	CASE NO. 2018-00294
FOR AN ADJUSTMENT OF ITS)	
ELECTRIC RATES)	

In the Matter of:

ELECTRONIC APPLICATION OF)	
LOUISVILLE GAS AND ELECTRIC)	CASE NO. 2018-00295
COMPANY FOR AN ADJUSTMENT OF ITS)	
ELECTRIC AND GAS RATES)	

STIPULATION TESTIMONY OF
KENT W. BLAKE
CHIEF FINANCIAL OFFICER
LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY

Filed: March 1, 2019

1 **Q. Please state your name, position and business address.**

2 A. My name is Kent W. Blake. I am the Chief Financial Officer of Kentucky Utilities
3 Company (“KU”) and Louisville Gas and Electric Company (“LG&E”) (collectively,
4 “Companies”), and an employee of LG&E and KU Services Company, which
5 provides services to LG&E and KU. My business address is 220 West Main Street,
6 Louisville, Kentucky 40202.

7 **Q. What is the purpose of your testimony?**

8 A. The purpose of my testimony is to discuss generally why the Stipulation and
9 Recommendation (“Stipulation”) reached by parties to these proceedings produces
10 fair, just, and reasonable rates, terms, and conditions for all of the Companies’
11 customers, and to recommend that the Commission approve the Stipulation. A
12 complete copy of the Stipulation is attached to my testimony as Stipulation Exhibit
13 KWB-1.

14 **Overview of Procedural Matters and Stipulation Process**

15 **Q. Please describe the procedural background and posture of these proceedings.**

16 A. On September 28, 2018, the Companies filed with the Commission their applications
17 in Case Nos. 2018-00294 (KU) and 2018-00295 (LG&E) for increases in base rates
18 for their electric and gas operations, as well as for other modifications of their electric
19 and gas rates, terms, and conditions.

20 Numerous parties petitioned the Commission for intervention in one or both
21 proceedings. Ultimately, the following parties participated in the settlement
22 negotiations that resulted in the Stipulation: the Association of Community
23 Ministries, Inc. (“ACM”); the Attorney General of the Commonwealth of Kentucky,

1 by and through the Office of Rate Intervention (“AG”); Community Action Council
2 for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties, Inc. (“CAC”);
3 United States Department of Defense and All Other Federal Executive Agencies
4 (“DoD”); Kentucky Industrial Utility Customers, Inc. (“KIUC”); The Kroger
5 Company (“Kroger”); Kentucky School Boards Association (“KSBA”); Lexington-
6 Fayette Urban County Government (“LFUCG”); Louisville/Jefferson County Metro
7 Government (“Louisville Metro”); Metropolitan Housing Coalition (“MHC”); Sierra
8 Club, Alice Howell, Carl Vogel, Amy Waters and Joe Dutkiewicz (collectively,
9 “Sierra Club”); and Walmart Inc. (“Walmart”).

10 All of the parties to these proceedings except Charter Communications
11 Operating, LLC (“Charter”) and Sierra Club have entered into the Stipulation. (All
12 parties who have entered into the Stipulation are collectively “Stipulating Parties.”)
13 Please note that Sierra Club participated in the settlement negotiations held at the
14 Commission’s offices on February 26 and 27, 2019.

15 Charter and the Companies entered into a separate stipulation and
16 recommendation filed with the Commission on February 27, 2019, to address
17 Charter’s concerns in these proceedings. The Stipulation Testimony of John Wolfe
18 being filed today addresses the terms of that stipulation.

19 **Q. Are there any remarks you would like to make regarding the Stipulating Parties’**
20 **and Sierra Club’s conduct during the negotiations that resulted in the**
21 **Stipulation?**

22 A. Yes. I would like to compliment and thank all of the Stipulating Parties and the
23 Sierra Club for their professionalism during two long days of arm’s-length

1 negotiations among parties with widely varying views and positions. These are
2 challenging and sometimes emotionally charged topics, yet all participants in the
3 negotiations remained polite and professional throughout. All parties worked to
4 mitigate the impact on customers to the extent possible, while still providing the
5 Companies an opportunity to recover their costs of providing safe and reliable
6 service. That approach enabled the Stipulating Parties to reach a mutually beneficial
7 outcome in complicated cases, which is a remarkable achievement.

8 **Q. Please generally describe the Stipulation proposed for the Commission's**
9 **consideration.**

10 A. The Stipulating Parties and Sierra Club met at the Commission's offices and engaged
11 in arm's-length negotiations on February 26 and 27, 2019 to reach the Stipulation.¹
12 The Stipulation is a total settlement of all issues in these proceedings among the
13 Stipulating Parties with the explicit exception of the following issues, which the
14 Stipulating Parties and other intervenors may litigate at hearing: the Companies'
15 401(k) contributions for employees who are also participants in the Companies'
16 defined benefit plans; the amount of, and the daily versus monthly format of,
17 residential electric and gas Basic Service Charges; and the Companies' proposal to
18 split energy charges into infrastructure and variable components for tariff purposes
19 only.

20 In sum, the Stipulation is a reasonable compromise among the Stipulating
21 Parties with respect to the revenue requirements and specific agreements with respect
22 to other terms, and results in fair, just, and reasonable rates, terms, and conditions for

¹ Some parties attended telephonically.

1 all of the Companies' customers with the exception of the issues the Stipulating
2 Parties have agreed to litigate. The Stipulation provides a transparent calculation of
3 the revenue requirements agreed upon and recommended by the Stipulating Parties in
4 the total context of all matters addressed in the Stipulation (subject to changes
5 resulting from the matters to be litigated). Because it is a settlement of issues
6 between the Stipulating Parties, not an agreement about issues on their merits, the
7 Stipulating Parties have agreed that the Stipulation should not constitute a precedent,
8 either before the Commission or elsewhere; rather, it is the product of compromise
9 and negotiation between the Stipulating Parties' positions, all of which may
10 reasonably be litigated in future base rate or other cases.

11 **Revenue Requirements**

12 **Q. What revenue requirement does the Stipulation establish for the Companies'**
13 **electric and gas utility operations?**

14 A. The Stipulation reduces KU's proposed revenue requirement increase by \$54.11
15 million relative to KU's filed position,² for a stipulated increase of \$58.35 million;³ it
16 reduces the proposed revenue requirement increase for LG&E's electric operations by
17 \$30.97 million relative to LG&E's filed position,⁴ for a stipulated increase of \$3.92
18 million;⁵ and it reduces the proposed revenue requirement increase for LG&E's gas
19 operations by \$5.60 million relative to LG&E's filed position,⁶ for a stipulated

² Case No. 2018-00294, Filing Requirements, Schedule A (Sept. 28, 2018).

³ Stipulation ¶ 1.1.

⁴ Case No. 2018-00295, Filing Requirements, Schedule A – Electric Operations (Sept. 28, 2018).

⁵ Stipulation ¶ 1.1.

⁶ Case No. 2018-00295, Filing Requirements, Schedule A – Gas Operations (Sept. 28, 2018).

1 increase of \$19.33 million.⁷ These new revenue requirements are the result of arm's-
2 length negotiations and represent significant changes from the positions the
3 Stipulating Parties initially took in these proceedings.⁸ Though the Companies
4 certainly filed their base rate applications with the objective of increasing their base
5 rates to recover the calculated revenue deficiencies for their respective utility
6 operations, considering the complexity of the issues and uncertainty in the outcome,
7 they believe that the compromises the Stipulating Parties reached on revenue
8 requirements and all other issues in these proceedings (with the exception of the
9 issues explicitly carved out of the Stipulation) are fair, just, and reasonable, and
10 deserve Commission approval.

11 Electric Revenue Increases

12 **Q. Please summarize how the Stipulation calculates the proposed electric revenue**
13 **requirement increases.**

14 A. The Stipulation's proposed electric revenue requirement increases are calculated as
15 shown in the table below. Please note that the calculations begin with the
16 Companies' proposed revenue requirements and make adjustments as shown to arrive
17 at the final stipulated increases:

Item	KU (\$M)	LG&E Electric (\$M)
Proposed electric revenue requirement increases	112.46	34.89
9.725% return on equity	(20.14)	(12.71)
Reflect correct depreciation rate for Brown 1 and 2 ash ponds	(2.78)	-

⁷ Stipulation ¶ 2.1.

⁸ See, e.g., Case Nos. 2018-00294 and 2018-00295, Direct Testimony of Donna Mullinax at 3; Case Nos. 2018-00294 and 2018-00295, Direct Testimony of Lane Kollen at 5.

Item	KU (\$M)	LG&E Electric (\$M)
Adjust ash pond depreciation to match generating units' service lives	(7.79)	(0.56)
Other depreciation expense changes	(8.75)	(4.28)
Refined coal credits for Trimble County and Mill Creek	(1.66)	(7.77)
Generator outage expense adjustment	(6.73)	(1.78)
Update interest rate from 4.90% to 4.25% for forecasted May 2019 First Mortgage Bond Issuance	(1.33)	(1.71)
Assume increased revenues from Rate RTS customers in test period	(1.48)	(0.60)
Reflect reductions in short-term debt balances resulting from forecasted First Mortgage Bond issuance in May 2019	(0.96)	(0.91)
Adjust KU test year revenues for assumed additional customer load	(0.90)	-
Extend amortization of July 2018 storm damage regulatory assets to ten years	(0.47)	(0.23)
Reduce revenue requirement by assumed amount of Late Payment Charge waiver	(0.34)	(0.23)
ECR beneficial reuse revenues in base rates	(0.44)	-
Adjusting revenues to reflect credit card rebates	(0.21)	(0.18)
Defer and amortize expense to repair Brown 1 stack	(0.10)	-
Adjust plant held for future use related to Lonesome Pine substation	(0.02)	-
Stipulated electric revenue requirement increases	58.35	3.92

1

2 **Q. Please explain the “9.725% return on equity” entry in the table above.**

3 A. The Stipulating Parties agreed for the purposes of these base-rate proceedings that a
4 return on equity of 9.725% is reasonable for the Companies' electric operations, and

1 the agreed stipulated revenue requirement increases for the Companies' electric
2 operations reflect that return on equity as applied to the Companies' capitalizations
3 and capital structures.⁹ Use of a 9.725% return on equity reduces the Companies'
4 proposed electric revenue requirement increases by \$20.14 million for KU and \$12.71
5 million for LG&E relative to their filed positions.

6 This return on equity is consistent with the record evidence in these
7 proceedings. For example, the Companies presented evidence supporting a range of
8 reasonable returns on equity ("ROEs") from 9.92% to 10.92%, with a midpoint of
9 10.42%.¹⁰ The AG did not present ROE evidence in these proceedings, but rather
10 used the Companies' most recently approved base-rate ROE of 9.70%.¹¹ The KIUC
11 did not retain an ROE expert in these proceedings, but argued to retain a 9.70%
12 ROE.¹² The DoD provided ROE testimony supporting a 9.35% ROE.¹³ The record
13 evidence also indicates the agreed ROE is consistent with that being provided to
14 vertically-integrated utilities according to Regulatory Research Associates, which
15 indicated that the median award for 2018 was 9.75% and the mean award was
16 9.68%,¹⁴ and that long-term capital costs have increased since the time of these
17 decisions.¹⁵ Therefore, for all Stipulating Parties the proposed 9.725% return on
18 equity represents a compromise from their litigation positions but is nonetheless
19 supported by evidence in the record of these proceedings. The Companies

⁹ Stipulation ¶ 1.2(A).

¹⁰ Case Nos. 2018-00294 and 2018-00295, Direct Testimony of Adrien M. McKenzie at 7.

¹¹ Case Nos. 2018-00294 and 2018-00295, Direct Testimony of Donna Mullinax at 11.

¹² Case Nos. 2018-00294 and 2018-00295, Direct Testimony of Lane Kollen at 53-55.

¹³ Case Nos. 2018-00294 and 2018-00295, Direct Testimony of Christopher C. Walters at 46.

¹⁴ *See, e.g.*, Arbough Rebuttal at 16.

¹⁵ McKenzie Rebuttal at 51.

1 respectfully submit the Commission should accept it in the overall context of the
2 Stipulation.

3 **Q. Please explain the “Reflect correct depreciation rate for Brown 1 and 2 ash**
4 **ponds” entry in the table above.**

5 A. The stipulated revenue requirement increases reflect a correction to the depreciation
6 rate for the Brown 1 and 2 ash ponds, which reduces KU’s proposed electric revenue
7 requirement increase by \$2.78 million.¹⁶ This correction was addressed in
8 discovery,¹⁷ and was also addressed in the testimony of KIUC witness Lane Kollen
9 and the rebuttal testimony of Christopher M. Garrett.¹⁸

10 **Q. Please explain the “Adjust ash pond depreciation to match generating units’**
11 **service lives” entry in the table above.**

12 A. The stipulated revenue requirement increases reflect a position taken by KIUC
13 opposing the Companies’ proposal in these proceedings to reduce ash pond service
14 lives to the time those ash ponds are scheduled to be closed and instead continuing to
15 depreciate those ash ponds over the life of the plant served by them.¹⁹ This position
16 reduces the Companies’ proposed electric revenue requirement increases by \$7.79
17 million for KU and \$0.56 million for LG&E.²⁰

18 **Q. Please explain the “Other depreciation expense changes” entry in the table**
19 **above.**

¹⁶ Stipulation ¶ 1.2(B).

¹⁷ KU Response to KIUC 1-35; KU’s Supplemental Response to PSC 1-53 (Jan. 11, 2019).

¹⁸ Kollen at 46-47; Garrett Rebuttal at 8.

¹⁹ Kollen at 50-51. *See also* Garrett Rebuttal at 6-10.

²⁰ Stipulation ¶ 1.2(C).

1 A. The stipulated revenue requirement increases reflect certain revised depreciation
2 rates for non-steam plant, as well as the associated impact of all depreciation
3 adjustments on the Companies' capitalization and the amortization of excess
4 accumulated deferred income taxes, shown in Stipulation Exhibit 1, which reduce the
5 Companies' proposed electric revenue requirement increases by \$8.75 million for KU
6 and \$4.28 million for LG&E.²¹ A complete set of agreed depreciation rates are
7 contained in Stipulation Exhibit 2. The depreciation-related revenue reductions are
8 effectively a compromise between the Companies' depreciation evidence and the
9 depreciation position of the intervening parties,²² and the Companies respectfully
10 submit the Commission should accept them in the overall context of the Stipulation.

11 **Q. Please explain the "Refined coal credits for Trimble County and Mill Creek"**
12 **entry in the table above.**

13 A. The stipulated revenue requirement increase for KU reflects a \$1.66 million revenue-
14 requirement reduction related to KU's contract proceeds resulting from the
15 Companies' refined coal project at the Trimble County Generating Station.²³
16 Similarly, the stipulated revenue requirement increase for LG&E reflects a \$7.77
17 million revenue-requirement reduction related to LG&E's contract proceeds resulting
18 from the Companies' refined coal project at the Trimble County and Mill Creek
19 Generating Stations.²⁴ The Companies had not yet executed these contracts at the
20 time their business plans underlying their filed rate applications were developed.

²¹ Stipulation ¶ 1.2(D).

²² See Kollen at 47-49.

²³ Stipulation ¶ 1.2(E).

²⁴ Stipulation ¶ 1.2(E).

1 Rather than credit these proceeds to a regulatory liability, the Stipulating Parties
2 agreed to begin crediting those revenues to customers in these proceedings by making
3 these adjustments.

4 **Q. Please explain the “Generator outage expense adjustment” entry in the table**
5 **above and the related request to approve continued regulatory accounting for**
6 **actual generator outage expenses that are less or greater than the average.**

7 A. The Companies proposed in these proceedings to include in their revenue
8 requirements expenses related to generator outages at a level calculated consistently
9 with the eight-year average approach agreed upon in the stipulation reached in the
10 Companies’ 2016 base rate cases. In the Stipulation in these cases, the Parties agreed
11 to use a five-year historical average of generator outage expenses in the Companies’
12 stipulated electric revenue requirement increases. This reduces the Companies’
13 proposed electric revenue requirement increases by \$6.73 million for KU and \$1.78
14 million for LG&E.²⁵

15 Relatedly, Stipulation asks the Commission to approve, the Companies’
16 continuing use of regulatory asset and liability accounting related to generator outage
17 expenses that are greater or less than the updated amount to be included in base rates.
18 This regulatory accounting, which is consistent with that approved in the Companies’
19 2016 cases, will ensure the Companies may collect, or will have to return to
20 customers, through future base rates any amounts that are above or below the base
21 rate baseline average embedded in the stipulated electric revenue requirement
22 increases in these proceedings.

²⁵ Stipulation ¶ 1.2(F).

1 **Q. Please explain the “Update interest rate from 4.90% to 4.25% for forecasted**
2 **May 2019 First Mortgage Bond Issuance” entry in the table above.**

3 A. The stipulated revenue requirement increases reflects a reduction in the assumed
4 interest rate from 4.90% to 4.25% for the Companies’ forecasted May 2019 First
5 Mortgage Bond (“FMB”) issuance, which reduces the Companies’ proposed electric
6 revenue requirement increases by \$1.33 million for KU and \$1.71 million for
7 LG&E.²⁶ This reflects a position taken by KIUC and contested by the Companies.²⁷

8 **Q. Please explain the “Assume increased revenues from Rate RTS customers in test**
9 **period” entry in the table above.**

10 A. The Stipulating Parties agreed to adjust the Companies’ proposed electric revenue
11 requirement increases to reflect assumed increases in revenues from Rate RTS
12 customers in the test period based on updated actual data for RTS customers through
13 November 2018, which reduces the Companies’ proposed electric revenue
14 requirement increases by \$1.48 million for KU and \$0.60 million for LG&E.²⁸ This
15 position was taken by the KIUC, though the amount of the adjustment for LG&E was
16 reduced.²⁹

17 **Q. Please explain the “Reflect reductions in short-term debt balances resulting from**
18 **forecasted First Mortgage Bond issuance in May 2019” entry in the table above.**

19 A. The Stipulating Parties agreed to adjust the Companies’ proposed electric revenue
20 requirement increases to reflect the correction of the Companies’ inadvertent

²⁶ Stipulation ¶ 1.2(G).

²⁷ Kollen at 52-53; Arbough Rebuttal at 1-4.

²⁸ Stipulation ¶ 1.2(H).

²⁹ Kollen at 5; Baron at 34.

1 omission of offsetting reductions to short-term debt balances when calculating total
2 capitalization related to the forecasted FMB issuance in May 2019. This reduces the
3 Companies’ proposed electric revenue requirement increases by \$0.96 million for KU
4 and \$0.91 million for LG&E.³⁰

5 **Q. Please explain the “Adjust KU test year revenues for assumed additional**
6 **customer load” entry in the table above.**

7 A. The Stipulating Parties agreed to adjust KU’s proposed electric revenue requirement
8 increase to reflect assumed additional revenues for a particular customer, which
9 reduces KU’s proposed electric revenue requirement increase by \$0.90 million.³¹
10 This is a compromise between the positions taken by KIUC and the Companies on
11 this issue.³²

12 **Q. Please explain the “Extend amortization of July 2018 storm damage regulatory**
13 **assets to ten years” entry in the table above.**

14 A. The Stipulating Parties agreed to adjust the Companies’ proposed electric revenue
15 requirement increases to reflect extending the amortization of the Companies’ July
16 2018 storm damage regulatory assets from five years to ten years, which reduces the
17 Companies’ proposed electric revenue requirement increases by \$0.47 million for KU
18 and \$0.23 million for LG&E.³³ This adjustment had been proposed by the AG.³⁴

19 **Q. Please explain the “Reduce revenue requirement by assumed amount of Late**
20 **Payment Charge waiver” entry in the table above.**

³⁰ Stipulation ¶ 1.2(I); KU Supplemental Response to PSC 1-53 (Jan. 11, 2019); LG&E Supplemental Response to PSC 1-53 (Jan. 11, 2019).

³¹ Stipulation ¶ 1.2(J).

³² See, e.g., Kollen at 26-28; Bellar Rebuttal at 10-14.

³³ Stipulation ¶ 1.2(K).

³⁴ Mullinax at 47-48.

1 A. The Stipulating Parties agreed to adjust the Companies’ proposed electric revenue
2 requirement increases by eliminating the Companies’ forecasted reductions in late
3 payment charges resulting from the tariff revision filed in these proceedings for an
4 annual waiver of a late payment charge. This adjustment effectively reduces the
5 Companies’ proposed electric revenue requirement increases by \$0.34 million for KU
6 and \$0.23 million for LG&E by increasing the forecast for other operating revenues.
7 Relatedly, the Stipulating Parties agreed to, and ask the Commission to approve, the
8 Companies’ use of regulatory asset accounting for the amounts of all late payment
9 charge waivers actually granted between the effective date of new rates in these
10 proceedings and the effective date of new rates in the Companies’ next base rate
11 proceedings.³⁵ This adjustment had been proposed by the AG.³⁶

12 **Q. Please explain the “ECR beneficial reuse revenues in base rates” entry in the**
13 **table above.**

14 A. The Stipulating Parties agreed to adjust the Companies’ proposed electric revenue
15 requirement increases to reflect leaving the baseline of ECR beneficial reuse revenues
16 currently in base rates, which reduces KU’s proposed electric revenue requirement
17 increase by \$0.44 million for KU but does not affect the proposed electric revenue
18 requirement increase for LG&E. The ECR beneficial reuse baseline adjustment will
19 continue to be made in KU monthly ECR filings.³⁷ This adjustment had been
20 proposed by the AG.³⁸

³⁵ Stipulation ¶ 1.2(L).

³⁶ Mullinax at 25-26.

³⁷ Stipulation ¶ 1.2(M).

³⁸ Mullinax at 43-45. *See also* Garrett Rebuttal at 15.

1 **Q. Please explain the “Adjusting revenues to reflect credit card rebates” entry in**
2 **the table above.**

3 A. The Stipulating Parties agreed to adjust the Companies’ proposed electric revenue
4 requirement increases to reflect credit card rebates to the Companies, which reduces
5 the Companies’ proposed electric revenue requirement increases by \$0.21 million for
6 KU and \$0.18 million for LG&E.³⁹

7 **Q. Please explain the “Defer and amortize expense to repair Brown 1 stack” entry**
8 **in the table above.**

9 A. The Stipulating Parties agreed to adjust KU’s proposed electric revenue requirement
10 increase for KU by deferring as a regulatory asset the cost to repair the Brown 1 stack
11 after the unit is retired and amortize this cost over a three-year period. This reduces
12 KU’s proposed electric revenue requirement increases by \$0.10 million. Relatedly,
13 the Stipulating Parties agreed to, and ask the Commission to approve, KU’s use of
14 regulatory asset accounting for the Brown 1 repair expense and a three-year
15 amortization of that asset.⁴⁰ This reflects a compromise of a position taken by KIUC
16 using an approach recommended by the Companies.⁴¹

17 **Q. Please explain the “Adjust plant held for future use related to Lonesome Pine**
18 **substation” entry in the table above.**

19 A. The Stipulating Parties agreed to adjust KU’s proposed electric revenue requirement
20 increase for KU reflects removal of the Lonesome Pine substation, which is located in

³⁹ Stipulation ¶ 1.2(N).

⁴⁰ Stipulation ¶ 1.2(O).

⁴¹ Kollen at 34-35; Bellar Rebuttal at 14-15.

1 Virginia and serves Virginia customers, from plant held for future use. This reduces
2 KU's proposed electric revenue requirement increases by \$0.02 million.⁴²

3 LG&E Gas Revenue Increase

4 **Q. Please summarize how the Stipulation calculates the proposed LG&E gas**
5 **revenue requirement increase.**

6 A. The Stipulation's proposed LG&E gas revenue requirement increase is calculated as
7 shown in the table below. Please note that the calculations begin with LG&E's
8 proposed gas revenue requirement and make adjustments as shown to arrive at the
9 final stipulated increase:

Item	LG&E Gas (\$M)
Proposed gas revenue requirement increase	24.93
9.725% return on equity	(3.87)
Remove uniform diameter transmission line projects	(0.93)
Update interest rate from 4.90% to 4.25% for forecasted May 2019 FMB Issuance	(0.52)
Reflect reductions in short-term debt balances resulting from forecasted FMB issuance in May 2019	(0.17)
Reduce revenue requirement by assumed amount of Late Payment Charge waiver	(0.10)
Adjusting revenues to reflect credit card rebates	(0.003)
Stipulated gas revenue requirement increase	19.33

10

11 **Q. Please explain the “9.725% return on equity” entry in the table above.**

⁴² Stipulation ¶ 1.2(P); Mullinax at 4. See also KU Supplemental Response to PSC 1-53 (Jan. 11, 2019).

1 A. The Stipulating Parties agreed for the purposes of these base-rate proceedings that a
2 return on equity of 9.725% is reasonable for the Companies’ gas operations, and the
3 agreed stipulated LG&E gas revenue requirement increase reflects that return on
4 equity as applied to LG&E’s gas capitalization and capital structure underlying its
5 originally proposed gas revenue requirement increase as modified through discovery.
6 Use of a 9.725% return on equity reduces LG&E’s proposed gas revenue requirement
7 increase by \$3.87 million.⁴³

8 The proposed 9.725% return on equity for gas base rates represents a
9 compromise from the Stipulating Parties’ litigation positions but is nonetheless
10 supported by evidence in the record of these proceedings. Therefore, the Companies
11 respectfully submit the Commission should accept it in the overall context of the
12 Stipulation.

13 **Q. Please explain the “Remove uniform diameter transmission line projects” entry**
14 **in the table above.**

15 A. The stipulated gas revenue requirement increase reflects removal of \$9.6 million of
16 capital related to LG&E’s proposed uniform diameter gas transmission line projects,
17 which reduces LG&E’s proposed gas revenue requirement increase by \$0.93
18 million.⁴⁴

19 The Stipulating Parties further agreed that this removal of the proposed
20 projects’ cost from this base-rate application does not bar LG&E from seeking cost
21 recovery for the projects either through a separate application for cost recovery under

⁴³ Stipulation ¶ 2.2(A).

⁴⁴ Stipulation ¶ 2.2(B).

1 LG&E’s Gas Line Tracker or in the context of a future base rate case. The
2 Stipulating Parties agreed not to oppose LG&E’s seeking such cost recovery in either
3 context on the grounds that cost recovery should be pursued via a different type of
4 application or proceeding, though the parties are free to oppose or support the
5 substance of LG&E’s proposal for cost recovery for uniform diameter gas
6 transmission line projects in any future proceeding on any basis except the forum of
7 the recovery.

8 **Q. Please explain the “Update interest rate from 4.90% to 4.25% for forecasted**
9 **May 2019 FMB Issuance” entry in the table above.**

10 A. The stipulated gas revenue requirement increase reflects a reduction in the assumed
11 interest rate from 4.90% to 4.25% for LG&E’s forecasted May 2019 FMB issuance,
12 which reduces LG&E’s proposed gas revenue requirement increase by \$0.52
13 million.⁴⁵ As I noted above concerning this item as applied to electric revenue
14 requirement increases, this reflects a position taken by KIUC and contested by the
15 Companies.⁴⁶

16 **Q. Please explain the “Reflect reductions in short-term debt balances resulting from**
17 **forecasted FMB issuance in May 2019” entry in the table above.**

18 A. The stipulated gas revenue requirement increase reflects the correction of LG&E’s
19 inadvertent omission of offsetting reductions to short-term debt balances when

⁴⁵ Stipulation ¶ 2.2(C).

⁴⁶ Kollen at 52-53; Arbough Rebuttal at 1-4.

1 calculating total capitalization related to the forecasted FMB issuance in May 2019.
2 This reduces LG&E’s proposed gas revenue requirement increase by \$0.17 million.⁴⁷

3 **Q. Please explain the “Reduce revenue requirement by assumed amount of Late**
4 **Payment Charge waiver” entry in the table above.**

5 A. The Stipulating Parties agreed to adjust LG&E’s proposed gas revenue requirement
6 increases by eliminating LG&E’s forecasted reductions in late payment charges
7 resulting from the tariff revision filed in these proceedings for an annual waiver of a
8 late payment charge. This adjustment effectively reduces LG&E’s proposed gas
9 revenue requirement increase by \$0.10 million by increasing the forecast for other
10 operating revenues. Relatedly, the Stipulating Parties agreed to, and ask the
11 Commission to approve, LG&E’s use of regulatory asset accounting for the amounts
12 of all late payment charge waivers actually granted between the effective date of new
13 rates in these proceedings and the effective date of new rates in LG&E’s next base
14 rate proceeding.⁴⁸ This adjustment had been proposed by the AG.⁴⁹

15 **Q. Please explain the “Adjusting revenues to reflect credit card rebates” entry in**
16 **the table above.**

17 A. The stipulated gas revenue requirement increase reflects credit card rebates to LG&E,
18 which reduces LG&E’s proposed gas revenue requirement increase by \$0.003
19 million.⁵⁰

⁴⁷ Stipulation ¶ 2.2(D); LG&E Supplemental Response to PSC 1-53 (Jan. 11, 2019).

⁴⁸ Stipulation ¶ 2.2(E).

⁴⁹ Mullinax at 25-26.

⁵⁰ Stipulation ¶ 2.2(F); Mullinax at 4 and 39.

1 **Rate RTS 60-Minute Exemption from Setting Billing Demand Following Utility System**
2 **Fault**

3 **Q. Please explain the Stipulation provision concerning “Rate RTS 60-Minute**
4 **Exemption from Setting Billing Demand Following Utility System Fault.”⁵¹**

5 A. The stipulation in the Companies’ 2016 base rate cases included a provision requiring
6 the Companies to implement for Rate TODP a provision such that, for customers with
7 their own generation, for 60 minutes immediately following a utility-system fault, but
8 not a utility energy spike or a fault on a customer’s system, the Companies would not
9 use any demand data for a Rate TODP customer to set billing demand. This 60-
10 minute exemption from setting billing demand permits customers who have
11 significant onsite generation (i.e., 1 MW or more) that comes offline due to a utility-
12 system fault to reset and bring back online their own generation before the
13 Companies will measure demand to be used for billing purposes. The Companies did
14 not propose to remove this Rate TODP provision in these cases. DoD testified that
15 this same provision should be expanded to Rate RTS.⁵² The Stipulation provides for
16 that to occur.

17 **Commitment to Work with Low-Income Advocates to Optimize Use of HEA Funds and**
18 **Shareholder Contributions.**

19 **Q. Please explain the Stipulation provision “Commitment to Work with Low-**
20 **Income Advocates to Optimize Use of HEA Funds and Shareholder**
21 **Contributions.”⁵³**

⁵¹ Stipulation ¶ 3.3.

⁵² Selecky at 20-21.

⁵³ Stipulation ¶ 4.1.

1 A. The Companies agree in the Stipulation to work constructively, including meeting as
2 needed, with ACM and CAC to address administrative and other matters in an effort
3 to optimize use of HEA and shareholder funds to maximize the numbers of customers
4 assisted and the impact of that assistance. The Companies have long worked closely
5 with low-income advocates, but it became clear in the course of settlement
6 negotiations that additional focused efforts regarding the optimal use of HEA funds
7 and shareholder contributions would well serve low-income advocates and the
8 customers they assist. Therefore, the Companies and low-income advocates
9 committed to additional efforts in that regard.

10 **Conclusion**

11 **Q. Have the Stipulating Parties agreed that the Commission should approve the**
12 **Companies' Applications in these proceedings, as modified by the Stipulation,**
13 **including all of its exhibits?**

14 A. Yes, the Stipulating Parties have agreed that, except as modified by the Stipulation
15 (including its exhibits), the Commission should approve the Companies' proposed
16 rates, terms, and conditions in these proceedings, with the clear and explicit exception
17 of the issues intentionally carved out of the Stipulation: the Companies' 401(k)
18 contributions for employees who are also participants in the Companies' defined
19 benefit plans; the amount and format of residential electric and gas Basic Service
20 Charges; and the Companies' proposal to split energy charges into infrastructure and
21 variable components for tariff purposes only. The Stipulating Parties recognize that
22 the resolution of those issues, as well as other changes the Commission might require,
23 could affect the items agreed to in the Stipulation. Nonetheless, the Stipulating

1 Parties believe the Stipulation is a fair, just, and reasonable resolution of all issues in
2 these proceedings with the exception of the issues listed above.

3 **Q. Do you have a recommendation?**

4 A. Yes. LG&E, KU, and the other parties to the Stipulation recommend the Commission
5 approve the Stipulation in its entirety and resolve the few issues excluded from the
6 Stipulation so that the change in base rates can occur for service rendered on and after
7 May 1, 2019. The timing of the approval and resolution of the remaining issues is
8 important because it avoids the need to put the rates filed with the applications in
9 effect subject to refund, pending a final order by the Commission.

10 **Q. Does this conclude your testimony?**

11 A. Yes.

12

VERIFICATION

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF JEFFERSON)

The undersigned, **Kent W. Blake**, being duly sworn, deposes and says he is the Chief Financial Officer for Kentucky Utilities Company and Louisville Gas and Electric Company and an employee of LG&E and KU Services Company, that he has personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained therein are true and correct to the best of his information, knowledge and belief.

Kent W. Blake

Kent W. Blake

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 28th day of February 2019.

Jimmy J. Ely

Notary Public

My Commission Expires:

November 9, 2022