Louisville Gas and Electric Company / Kentucky Utilities Company Case Nos. 2018-00295 / 2018-00294

United States Department of Defense and All Other Federal Executive Agencies' Responses to Attorney General's Initial Data Request

Data Request No. 1:

Reference the Direct Testimony of Mr. James T. Selecky (Selecky Direct) generally, including his discussion of Mr. Seelye's Loss of Load Probability (LOLP) method.

a. Does Mr. Selecky believe that Mr. Seelye's LOLP was performed in accordance with the National Association of Regulatory Utility Commissioners' Electric Utility Cost Allocation Manual? Explain any response.

b. Does Mr. Selecky believe Mr. Seelye's LOLP allocated production plant costs to classes using appropriate allocation factors for each of the three rating periods (i.e. peak hours, intermediate or shoulder hours, and base loading hours)?

Response:

a. The National Association of Regulatory Utility Commissioners' Electric Utility Cost Allocation Manual states the following regarding the LOLP Production Cost method;

> "Using the LOLP Production Cost method hourly LOLPs are calculated and the hours are grouped into on-peak, off-peak and shoulder-peak periods based on this similarity of the LOLP values." (Page 62 of NARUC Electric Utility Cost Allocation Method)

Mr. Seelye's LOLP cost of service study did not specifically group the hours into on-peak, off-peak and shoulder periods. As a result, the production costs are not allocated specifically to identified rate periods. However, Mr. Seelye's has a LOLP allocation factor for each hour. Mr. Seelye's cost of service using the LOLP method was not performed in strict accordance with the NARUC Electric Utility Cost Allocation Manual because the on-peak, off-peak and shoulder hours are not specifically identified. However, Mr. Seelye's cost of service may produce the same result.

b. Please see response to a. above.

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Data Request No. 2:

Reference Selecky Direct at 5, lines 9-12, wherein he mentions factors regulators may consider in allocating revenue, such as "economic development."

a. Explain what Mr. Selecky means by "economic development."

b. Explain, in complete detail, if "economic development" is an item regulators, including the Kentucky Public Service Commission, can consider in setting rates.

Response:

a. Mr. Selecky's reference to economic development refers to a growth in the Kentucky economy through the creation of jobs and also supporting the viability of current jobs that compete in national and inter-national markets.

b. Regulators can consider economic development in setting rates by keeping rates close to cost of service and to recognize the benefits of job growth and retention of jobs in Kentucky when allocating any rate increase.

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Data Request No. 3:

Reference Selecky Direct, wherein Mr. Selecky discusses the CP methodology he conducted to allocate fixed production costs.

a. From what data set did Mr. Selecky ascertain his peaks?

Response:

a. Mr. Selecky used information that was provided to the Kentucky School Board Association in their first request for Questions Nos. 3 and 5 to establish the peaks he is proposing to use to allocate the fixed production and transmission costs.

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<u>Data Request No. 4:</u>

Reference Selecky Direct, pages 20-22, wherein Mr. Selecky proposes terms and conditions changes to certain tariffs.

a. Indicate and explain whether Mr. Selecky's proposals drive or reduce any costs.

b. If the answer to subpart (a), above, is in the affirmative, explain the level of cost savings or increase, including the computation of same. Include all workpapers related to this request in native format.

c. Explain what studies or research Mr. Selecky conducted to determine whether or not the proposed terms and conditions changes to certain tariffs drove or reduced any costs.

<u>Response:</u>

a. Mr. Selecky's proposals on pages 20-22 of his direct testimony relate to tariff changes. The customers that take service on those rates could see reductions in their utility costs.

b. In the case of LG&E's Retail Transmission Service rate, the proposal could reduce costs if as a result of a system fault, a customer's onsite generation is interrupted and cannot be restored within 15 minutes after LG&E service is restored. If this occurs, the customer could be subject to a higher current demand charges and ratchet demand charges for the next 11 months. This is discussed on page 12 lines 2 – 13 of Mr. Selecky's testimony. Regarding the proposal of maintaining the 70% demand ratchet provision for LG&E's Substitute Gas Sales Service rate, this provision could result in producing savings if a customer produce a high demand in a single month that produces ratchet demand charges in the following months.

c. Mr. Selecky did not perform any specific studies to determine the level of savings that a customer would achieve. It is logical to assume that if a customer has to shutdown its onsite generation due to a utility system fault and cannot restore the onsite generation in 15 minutes, the customer would begin purchasing excess levels of demand from the utility even if the generation was returned within 60 minutes. Regarding the proposed changes to the gas tariff, the restoration of the ratchet demand provisions would keep costs to the customer at the same level that is provided by the current tariff.

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<u>Data Request No. 5:</u>

Reference Selecky Direct, page 22, wherein he discusses the demand ratchet provision for class SGSS, and states, "A 100% demand ratchet is punitive and does not reflect the usage diversity for gas customers that utilize the system."

a. Explain what Mr. Selecky means when he states the "100% demand ratchet is punitive."

b. Explain what Mr. Selecky means by "usage diversity."

c. Explain why Mr. Selecky believes usage diversity should be considered in setting rates and what impact a 100% demand ratchet has on recognition of usage diversity.

<u>Response:</u>

a. A review of the Substitute Gas Sales Rate design that was provided in response to Department of Defense, Question 42 provided the workpapers supporting development of the monthly demand charge of $6.73 per Mcf. That workpaper indicated that a significant portion of the cost was attributable to low pressure main costs and transmission high pressure main costs. Generally, mains are designed to meet system peaks, not the sum of all the customers' non-coincident peaks. Therefore, if the ratchet demand is set at 100%, a customer is providing demand ratchet dollars in excess of what his contribution to the actual system demand may have been. As a result, the 100% demand ratchet is punitive.

b. What Mr. Selecky meant by utilizing the term usage diversity was a reference to the fact that the system peak should be less than the sum of all the customers' non-coincident peaks.

c. Please see the responses to a. and b. above.

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Data Request No. 6:

Reference Selecky Direct, pages 22-25.

a. Provide citations to the emails reviewed by Mr. Selecky where "Mr. Spanos had intended to increase the lives" of Mill Creek 1 and 2, Brown 3 and Ghent 1 and 2.

Response:

a. Please see AG DR1 DOD-FEA Q6 Attach 6.

VERIFICATION

STATE OF MISSOURI)
) **SS:**
COUNTY OF ST. LOUIS)

The undersigned, **James T. Selecky**, being duly sworn, deposes and says that he is a Principal of Brubaker & Associates, Inc., and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

James Selecky
James T. Selecky

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 7th day of February 2019.

Maria E. Decker
Notary Public

My commission expires: May 5, 2021

MARIA E. DECKER
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis City
My Commission Expires: May 5, 2021
Commission # 13706793