

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

**ELECTRONIC APPLICATION OF
LOUISVILLE GAS AND ELECTRIC
COMPANY FOR AN ADJUSTMENT OF
ITS ELECTRIC AND GAS RATES**

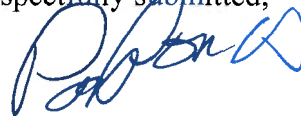
CASE NO. 2018-00295

**NOTICE OF FILING OF TESTIMONY OF
THE KROGER COMPANY AND WALMART, INC.**

Pursuant to the requirements of the Kentucky Public Service Commission's (the "Commission") Orders entered on October 11, 2018 and November 9, 2018, the Kroger Company ("Kroger") and Walmart, Inc. ("Walmart"), by and through counsel, hereby submit the Direct Testimony and Exhibits of Gregory W. Tillman on behalf of Walmart, Inc. (Attachment A), and the Direct Testimony of Justin Bieber on behalf of The Kroger Company (Attachment B). Kroger concurs in and supports the Direct Testimony and Exhibits of Gregory W. Tillman, and Walmart concurs in and supports the Direct Testimony of Justin Bieber.

The submission of this direct testimony does not constitute a waiver by either Kroger or Walmart of the right to object to or appeal the Order entered by the Commission on November 9, 2018, granting full intervention to both parties on a joint basis rather than on an individual basis, and stating that Kroger and Walmart are to be considered one party rather than individual parties.

Respectfully submitted,



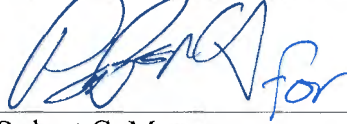
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ATTACHMENT A

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

DIRECT TESTIMONY AND EXHIBITS OF

GREGORY W. TILLMAN

ON BEHALF OF

WALMART INC.

Filed: January 16, 2019

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Exhibits

Exhibit GWT-1 – Witness Qualifications Statement

Exhibit GWT-2 – Estimation of Annualized Bill Impact of the Termination of the TCJA Surcredit

Exhibit GWT-3 – Calculation of Revenue Requirement Impact of LG&E's Proposed Increase in ROE

Exhibit GWT-4 – Calculation of Revenue Requirement Impact of Including CWIP in Rate Base

Exhibit GWT-5 – Reported Authorized Returns on Equity, Electric Utility Rate Cases Completed, 2014 to Present

Exhibit GWT-6 – Class Relative Rates of Return

Introduction

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

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

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

7 A. I am testifying on behalf of Walmart Inc. ("Walmart").

8 **Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.**

9 A. I earned a Bachelor of Science in Electrical Engineering from the University of Tulsa
10 in 1987. Prior to joining Walmart in 2015, I had over 22 years of experience in the
11 regulated and deregulated energy industry including roles in regulatory, pricing,
12 billing, and metering information. In 1990, after serving on active duty as a Signal
13 Officer in the United States Army, I joined Public Service Company of Oklahoma
14 ("PSO"). From 1990 through 1997, I was employed in various positions at PSO,
15 including in the Information Services, Business Planning, Rates and Regulatory, and
16 Ventures departments. During my tenure with the Rates and Regulatory Department,
17 I served as the Supervisor of Power Billing and Data Collection. In this position, I
18 managed the billing for large industrial and commercial customers and led the
19 implementation of PSO's real-time pricing program. I also managed the
20 implementation of real-time pricing for the three remaining utilities in the Central and
21 South West Corporation – Southwestern Electric Power Company, Central Power and
22 Light, and West Texas Utilities. In 1997, I joined the Retail Energy Department of the

1 Williams Energy Company as the Manager of Systems for the retail gas and electric
2 data and billing. I also managed the customer billing function at Williams Thermogas
3 as well as the billing and accounting systems support functions at Williams
4 Communications. From 2000 to 2002, I served as the Vice President of Energy
5 Solutions for Automated Energy. In 2008, following several assignments as a
6 consultant and project manager in various industries, I joined Oklahoma Gas & Electric
7 Company ("OG&E") as a Senior Pricing Analyst. I was promoted to Manager of
8 Pricing in January 2010 and became the Product Development Pricing Leader in 2013.
9 While at OG&E, I was instrumental in developing and managing OG&E's pricing
10 strategy and products, including the design and implementation of OG&E's
11 SmartHours™ rate. I have been in my current position with Walmart since November
12 2015. My Witness Qualification Statement is included herein as Exhibit GWT-1.

13 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE**
14 **KENTUCKY PUBLIC SERVICE COMMISSION ("KPSC" OR "THE**
15 **COMMISSION")?**

16 A. Yes. I submitted testimony in Case No. 2017-00179, Case No. 2016-00370, and Case
17 No. 2016-00371.

18 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE OTHER**
19 **STATE REGULATORY COMMISSIONS?**

20 A. Yes. I have testified in thirty-one (31) other proceedings before the Arizona
21 Corporation Commission, the Arkansas Public Service Commission, the Connecticut
22 Public Utilities Regulatory Authority, the Indiana Utility Regulatory Commission, the

1 Iowa Utilities Board, the Michigan Public Service Commission, the Public Utility
2 Commission of Nevada, the New Jersey Board of Public Utilities, the Oklahoma
3 Corporation Commission, the Pennsylvania Public Utility Commission, the Rhode
4 Island Public Utilities Commission, the South Carolina Public Service Commission,
5 The Public Utilities Commission of Texas, the Commonwealth of Virginia State
6 Corporation Commission, the Public Service Commission of West Virginia, and the
7 Wisconsin Public Service Commission. My testimony addressed the topics of revenue
8 requirement, rate design, revenue allocation, pricing, customer impacts, tariffs, and
9 terms and conditions of service. See Exhibit GWT-1.

10 **Q. ARE YOU SPONSORING ANY EXHIBITS WITH YOUR TESTIMONY?**

11 A. Yes. I am sponsoring the exhibits listed in the Table of Contents.

12 **Q. PLEASE BRIEFLY DESCRIBE WALMART'S OPERATIONS IN**
13 **KENTUCKY.**

14 A. As shown on Walmart's website, there are 102 retail units and two distribution centers,
15 employing 30,171 associates in the Commonwealth of Kentucky. In fiscal year ending
16 2018, Walmart purchased \$586.1 million worth of goods and services from 780
17 Kentucky-based suppliers, supporting an additional 40,624 supplier jobs.¹

18 **Q. PLEASE BRIEFLY DESCRIBE WALMART'S OPERATIONS WITHIN**
19 **KENTUCKY UTILITIES COMPANY'S SERVICE TERRITORY.**

20 Walmart has 19 retail units that take electric service from Louisville Gas and Electric
21 Company ("LG&E" or "the Company"). Primarily, Walmart takes service under rates

¹ <http://corporate.walmart.com/our-story/locations/united-states#/united-states/kentucky>

1 Time-of-Day Primary Service (“TODP”) and Time-of-Day Secondary Service
2 (“TODS”).

3 **Purpose of Testimony**

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

5 A. My testimony addresses aspects of LG&E's Application for Authority to Adjust
6 Electric and Gas Rates ("Application"), specifically, the Company's requested rate
7 increase, including the Return on Equity ("ROE") sought by LG&E, the Company's
8 Cost of Service Study ("COSS"), and the proposed revenue allocation and rate design,
9 and provides recommendations to assist the Commission in its consideration of the
10 Application.

11 **Summary of Recommendations**

12 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS TO THE**
13 **COMMISSION.**

14 A. My recommendations to the Commission are as follows:

15 1) In evaluating the \$35 million dollar revenue requirement increase proposed by the
16 Company, the Commission should take into account the compounding effect this
17 increase would have on the Company's ratepayers in light of:

18 a. The increased revenue requirement of \$57,098,290 awarded to the
19 Company in June 2017 in the 2016 Base Rate Case; and

20 b. The expected annualized increase to rates associated with the expiration of
21 the TCJA Surcredit;

- 1 2) The Commission should reject LG&E's proposed inclusion of approximately \$42.3
2 million of CWIP in rate base. If, however, the Commission determines that CWIP
3 should continue to be included in rate base, it should recognize the resulting shift
4 in risk from the Company's shareowners to its customers and reflect that shift in
5 risk in the form of a reduced authorized ROE.
- 6 3) In setting the appropriate ROE in these proceedings, the Commission should
7 consider the currently authorized ROE of 9.7 percent awarded to the Company and
8 whether the Company's financial situation has deteriorated since the 9.7 percent
9 was awarded. The Commission should also consider the nationwide trends on
10 ROEs as well as the decreased risk profile of the Company associated with the
11 favorable regulatory environment, which includes CWIP in rate base, the use of
12 forecasted test year, and a risk reducing capital structure. These factors all support
13 an ROE of no more than 9.7 percent.
- 14 4) For the purposes of this docket, Walmart does not oppose the Company's proposed
15 COSS. However, to the extent that alternative cost of service models or
16 modifications to the Company's model are proposed by other parties, Walmart
17 reserves the right to address any such changes.
- 18 5) At the proposed revenue requirement, Walmart does not oppose the Company's
19 revenue allocation.
- 20 6) If the Commission ultimately approves a revenue requirement less than that
21 proposed by the Company, the reduction in the proposed revenue requirement
22 should be used to: (1) further reduce the existing intra-class subsidy burden on the

1 major classes; and (2) reduce the overall impact on all customer classes as outlined
2 within my testimony.

3 7) Walmart does not oppose the change in billing determinants from kW units to kVA
4 units for the TODS Rate.

5 **Q. DOES THE FACT THAT YOU MAY NOT ADDRESS AN ISSUE OR**
6 **POSITION ADVOCATED BY THE COMPANY INDICATE WALMART'S**
7 **SUPPORT?**

8 A. No. The fact that an issue is not addressed herein or in related filings should not be
9 construed as an endorsement of any filed position.

10 **LG&E Proposed Revenue Increase**

11 **Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S PROPOSED**
12 **ELECTRIC REVENUE REQUIREMENT INCREASE?**

13 A. LG&E seeks an increase in annual revenue of \$35 million, or 3.0 percent. *See*
14 *Testimony of Robert M. Conroy*, p. 5, line 22. This proposed increase is based on a
15 fully forecasted test period ending April 30, 2020. *See Application*, p. 8 at ¶ 13.

16 **Q. DOES THE PROPOSED INCREASE REFLECT THE TOTAL IMPACT ON**
17 **LG&E'S CUSTOMERS?**

18 A. No. The Tax Cuts and Jobs Act ("TCJA") Surcredit will terminate contemporaneously
19 with the implementation of the base rates approved in this case, further compounding
20 the increase to customer bills. *Id.* p. 4, ¶ 7.

1 **Q. HAVE YOU ESTIMATED THE ANNUALIZED IMPACT ON CUSTOMER**
2 **BILLS OF THE TERMINATION OF THE TCJA SURCREDIT?**

3 A. Yes. When the TCJA Surcredit expires, customers will see an additional annualized
4 increase of \$56 million dollars. *See* Exhibit GWT-2. When coupled with the rate
5 increased sought here, customers could see a total bill increase of \$91 million dollars.
6 The Company estimates that a residential customer will see a bill increase of nearly
7 \$7.53, approximately 7.5 percent of the current, average customer bill. Application at
8 ¶ 7.

9 **Q. SHOULD THE COMMISSION CONSIDER THE COMBINED IMPACT OF**
10 **THE PROPOSED RATE INCREASE AND TAX CREDIT EXPIRATION OF**
11 **\$91 MILLION ON CUSTOMERS IN SETTING THE REVENUE**
12 **REQUIREMENT AND ROE FOR THE COMPANY?**

13 A. Yes. The Commission should also consider the fact that the Company was granted a
14 revenue requirement increase of \$57,098,290 in June 2017 as part of its last base rate
15 proceeding. *See* Case No. 2016-00371, Order dated June 29, 2017 (the "2016 Base Rate
16 Case"). The TCJA Surcredit only resulted in a partial offset of the increases that
17 customers otherwise would have seen as a result of the rate increase in the 2016 Base
18 Rate Case.

19 Electricity is a significant expense for all of the Company's customers. In
20 Walmart and Kroger's cases, electricity represents a significant portion of a retailer's
21 operating costs. The pace of the Company's rate increases in recent years is far
22 outpacing the costs of inflation. This means that customers not only pay more for their

1 electricity, but that what they pay represents an ever larger share of their total income.
2 From a retailer's perspective, when electric rates increase, the increase in cost to
3 retailers puts pressure on consumer prices and on the other expenses required by a
4 business to operate.

5 The Commission should balance the interests of the Company with the interests
6 of its customers. To that end, the Commission should thoroughly and carefully consider
7 the financial impact of a rate increase on customers, both in terms of the overall revenue
8 requirement and the ROE earned on that revenue, particularly in light of the fact the
9 Company just received a rate increase in June 2017. Such consideration ensures that
10 any increase in the Company's rates reflects the minimum amount necessary to
11 compensate the Company for adequate and reliable service while continuing to provide
12 LG&E the opportunity to earn a reasonable return, but without further burdening an
13 already overburdened customer base.

Return on Equity

14
15 **Q. WHAT IS THE COMPANY'S PROPOSED ROE IN THIS DOCKET?**

16 A. LG&E witness McKenzie recommends an ROE of 10.42 percent. *See* Testimony of
17 Adrien M. McKenzie, p. 6, line 22. This recommendation is based on a range of 9.92
18 percent to 10.92 percent estimated using the discounted cash flow, capital asset pricing
19 model, empirical capital asset pricing model, and risk premium analyses. The proposed
20 range includes a flotation cost adjustment of 12 basis points. *See id.*, p. 7, lines 5-15.
21 The requested ROE at the Company's proposed capital structure results in a proposed

1 weighted cost of capital equal to 7.62 percent on the Company's capitalization. *See*
2 Schedule J-1.1/J-1.2.

3 **Q. ARE YOU CONCERNED THAT THE COMPANY'S PROPOSED ROE OF**
4 **10.42 PERCENT IS EXCESSIVE?**

5 A. Yes. I am concerned that the Company's proposed ROE is excessive, especially in light
6 of: (1) the customer impact of the resulting revenue requirement increase as discussed
7 above; (2) the use of risk-reducing rate-making structures such as the forecast test-year,
8 inclusion of CWIP in rate base, and the Company's proposed capital structure; and (3)
9 recent rate case ROEs approved by commissions nationwide.

10 **Q. IS THE COMPANY'S PROPOSED ROE HIGHER THAN ITS CURRENTLY**
11 **AUTHORIZED ROE?**

12 A. Yes. In the 2016 Base Rate Case, the Commission authorized an ROE of 9.7 percent.
13 *See* 2016 Base Rate Case at Order at 20 (June 22, 2017). Interestingly, a Stipulation
14 filed in the 2016 Base Rate Case proposed an ROE of 9.75 percent, but the Commission
15 rejected it in favor of the *lower* ROE of 9.70 percent. *Id.* The ROE proposed in this
16 proceeding represents an increase of 72 basis points to the ROE authorized by the
17 Commission in the 2016 Base Rate Case.

18 **Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF THE COMPANY'S**
19 **PROPOSED 72 BASIS POINT INCREASE IN THE ROE?**

20 A. The impact of the ROE change is an increase to the revenue requirement of
21 approximately \$15.5 million as compared to that resulting from the 9.7 percent ROE
22 approved in the most recent rate case. The requested increase due to the increased ROE

1 constitutes approximately 44.2 percent of the base revenue increase requested by
2 LG&E. *See* Exhibit GWT-3.

3 **Q. GENERALLY, DOES THE USE OF A FORECAST TEST YEAR DECREASE**
4 **THE COMPANY'S BUSINESS RISK?**

5 A. Yes. The use of a forecast test year allows the Company to include the most current
6 information in the rates being charged to customers at the time those rates will be in
7 effect, which reduces the Company's exposure to regulatory lag in cost recovery when
8 compared to the use of a historical test year in setting rates.

9 **Q. WHAT IS THE COMPANY'S PROPOSED CAPITAL STRUCTURE IN THIS**
10 **CASE?**

11 A. The Company proposes a capital structure consisting of an equity portion of 52.84
12 percent, a long-term debt portion of 45.27 percent, and short-term debt portion of 1.89
13 percent. *See* Schedule J-1.1/J-1.2.

14 **Q. DOES WALMART TAKE A POSITION ON THE CAPITAL STRUCTURE**
15 **PROPOSED BY THE COMPANY?**

16 A. No, however, the Commission should consider the impact of the proposed capital
17 structure on the Company's equity risk in its determination of the appropriate ROE. As
18 LG&E witness McKenzie explains, "[o]ther things equal, a higher debt ratio, or lower
19 common equity ratio, translates into increased financial risk for all investors." *See*
20 Testimony of Adrien M. McKenzie, p. 31, lines 15-16. It necessarily follows that the
21 converse must also be true; a lower debt ratio, or higher common equity ratio, would
22 translate into reduced financial risk, leading to a reduced cost of equity.

1 **Q. WHAT IS YOUR UNDERSTANDING OF THE COMMISSION'S**
2 **TRADITIONAL TREATMENT OF CWIP IN RATE BASE?**

3 A. It is my understanding that the Commission has long allowed utilities to include CWIP
4 in rate base.

5 **Q. ARE YOU CONCERNED WITH THE INCLUSION OF CWIP IN RATE BASE?**

6 A. Yes. Including CWIP in rate base results in charges to ratepayers for assets that are not
7 yet "*used and useful*" in providing electric service. Under the Company's proposal,
8 ratepayers will pay for assets prior to receiving any benefits from those assets. This
9 violates the matching principle, namely that customers should bear costs at the time
10 they are receiving the corresponding benefits. Changes in the number and mix of
11 customers that occur during the construction process, *i.e.*, before the asset becomes
12 used and useful can often mean that some customers pay for an asset but do not benefit
13 from it (or vice versa). For example, customers may pay for certain assets during the
14 construction phase, but leave the system before those assets become operational, and
15 thus receive no benefit for their portion of the cost of the assets for which they paid.

16 Indeed, the pitfalls of allowing a utility to recover for an asset that is not yet used
17 and useful was made painfully apparent in South Carolina when SCE&G abandoned
18 their nuclear power plants after recovering billions from its customers as CWIP.

19 **Q. ARE THERE OTHER CONCERNS WITH INCLUDING CWIP IN RATE BASE**
20 **THAT THE COMMISSION SHOULD CONSIDER?**

21 A. Yes. Including CWIP in rate base shifts risk onto ratepayers that traditionally is
22 assumed by the utility's investors. Investors are already compensated for the risk they

1 bear through the authorization of a return on the investment and the value of financing
2 the construction once the asset is placed in service. Utility's customers who pay for
3 construction costs receive no current benefit for the use of their money. Moreover,
4 under this scenario, the party bearing the risk -- the utility's ratepayers -- have no
5 recourse for recovering or mitigating the cost of financing the asset's construction in
6 the event the Company encounters problems during the construction of the plant
7 resulting in stoppage of the construction, non-completion of the project, and/or a
8 substantial delay in the project's completion. When investors bear the risk of
9 construction problems, investors are not only incentivized, but empowered, to rectify
10 the delays and/or stoppages.

11 **Q. HOW MUCH CWIP DOES THE COMPANY PROPOSE TO INCLUDE IN ITS**
12 **RATE BASE?**

13 A. LG&E proposes to include approximately \$42.3 million of CWIP in its test year rate
14 base. *See* Schedule B-4.

15 **Q. AT THE COMPANY'S PROPOSED CWIP AMOUNT, HOW MUCH OF**
16 **LG&E'S RATE BASE WOULD BE ASSOCIATED WITH CWIP?**

17 A. As proposed, CWIP constitutes approximately 1.7 percent of the Company's rate base.
18 *See* Exhibit GWT-4.

19 **Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF INCLUDING CWIP**
20 **IN RATE BASE?**

21 A. The inclusion of CWIP in rate base results in a revenue requirement impact to
22 customers of approximately \$4.4 million on an annual basis. *Id.*

1 **Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION**
2 **REGARDING THE INCLUSION OF CWIP IN RATE BASE?**

3 A. The Commission should reject LG&E's proposed inclusion of approximately \$42.3
4 million of CWIP in rate base. However, if the Commission determines that CWIP
5 should continue to be included in rate base, it should recognize the resulting shift in
6 risk from the Company's shareowners to its customers in the form of a reduced
7 authorized ROE.

8 *National Utility Industry ROE Trends*

9 **Q. IS THE COMPANY'S PROPOSED ROE CONSISTENT WITH ROEs**
10 **APPROVED BY OTHER UTILITY REGULATORY COMMISSIONS?**

11 A. The ROE proposed by the Company is higher than the average ROE approved by other
12 utility regulatory commissions nationwide in 2016, 2017, and 2018. *See* Exhibit GWT-
13 5.

14 **Q. WHAT IS YOUR UNDERSTANDING OF THE ROE AWARDED IN RECENT**
15 **RATE CASES?**

16 A. According to data from SNL Financial,¹ a financial news and reporting company, there
17 have been 110 reported electric utility rate case ROEs authorized by state regulatory
18 commissions for investor-owned electric utilities in 2016, 2017, and 2018. *Id.* The
19 average of the reported ROEs in those cases is 9.61 percent. The range of reported
20 authorized ROEs for the same period is 8.40 percent to 11.95 percent, and the median
21 authorized ROE is 9.60 percent. *Id.*

¹ Regulatory Research Associates is part of SNL Financial.

1 **Q. SEVERAL OF THE REPORTED AUTHORIZED ROES ARE FOR**
2 **DISTRIBUTION-ONLY UTILITIES OR FOR ONLY A UTILITY'S**
3 **DISTRIBUTION SERVICE RATES. WHAT IS THE AVERAGE**
4 **AUTHORIZED ROE IN THE REPORTED GROUP FOR VERTICALLY**
5 **INTEGRATED UTILITIES LIKE LG&E?**

6 A. In the group reported by SNL Financial, the average ROE for vertically integrated
7 utilities authorized from 2016 through present is 9.75 percent. *Id.* Nationally, ROE
8 awards have remained substantially constant over this period. *Id.*

9 **Q. PLEASE EXPLAIN.**

10 A. The average authorized ROE for vertically integrated utilities in 2016 was 9.77 percent,
11 in 2017 it was 9.80 percent, and in 2018 it was 9.68 percent. Additionally, over this
12 period, 30 vertically integrated utilities have been authorized ROEs of 9.60 percent or
13 less. *Id.* As such, the Company's proposed 10.42 percent ROE is counter to broader
14 electric industry trends.

15 **Q. IS WALMART RECOMMENDING THAT THE COMMISSION BE BOUND**
16 **BY ROEs AUTHORIZED BY OTHER STATE REGULATORY AGENCIES?**

17 A. No. Decisions of other state regulatory commissions are not binding on the
18 Commission. Additionally, each commission considers the specific circumstances in
19 each case in its determination of the proper ROE. Walmart is providing this
20 information to illustrate a national customer perspective on industry trends in
21 authorized ROE. In addition to using recent authorized ROEs as a general gauge of
22 reasonableness for the various cost of equity analyses presented in this case, the

1 Commission should consider how its authorized ROE impacts existing and prospective
2 customers relative to other jurisdictions.

Conclusion

3
4 **Q. GENERALLY, WHAT IS YOUR RECOMMENDATION TO THE**
5 **COMMISSION REGARDING THE COMPANY'S PROPOSED REVENUE**
6 **REQUIREMENT INCREASE?**

7 A. The Commission should exclude CWIP when calculating the Company's revenue
8 requirement. The revenue requirement should be further decreased by adoption of a
9 lower ROE as discussed herein. Further, in determining whether or not to further raise
10 rates, the Commission should take into account the significant rate increases suffered
11 by the Company's ratepayers in recent years, including the compounding effect
12 associated with the TCJA Surcredit expiring.

13 **Q. GENERALLY, WHAT IS YOUR RECOMMENDATION TO THE**
14 **COMMISSION REGARDING THE COMPANY'S PROPOSED ROE?**

15 A. The Commission should approve an ROE no higher than the Company's currently
16 authorized 9.7 percent. Such an ROE is consistent with nationwide trends. Moreover,
17 there is no evidence to suggest that the Company's financial situation has deteriorated
18 since the 2016 Base Rate Case when the 9.7 percent ROE was awarded. Indeed, an
19 ROE lower than 9.7 percent is appropriate because of the favorable regulatory
20 environment, which includes the reduced risk associated with the Company's proposed
21 capital structure that favors equity over debt, the inclusion of CWIP in rate base, and
22 permits the use of a forecasted test year in base rate cases.

Cost of Service

1
2 **Q. WHAT IS WALMART'S POSITION ON SETTING RATES BASED ON THE**
3 **COST OF SERVICE?**

4 A. Walmart advocates that rates be set by regulatory agencies based on the utility's cost of
5 service for each rate class. A regulatory policy that supports the fair-cost-
6 apportionment objective of rate-making ensures that rates reflect cost causation, which
7 sends proper price signals to customers and minimizes price distortions.

8 **Q. HOW IS COST CAUSATION DETERMINED IN THE RATE-MAKING**
9 **PROCESS?**

10 A. In cost of service regulation, the Commission must determine the revenue requirement
11 that the Company is authorized to recover based on prudent costs including a
12 reasonable return on the investment required to provide service. The utility's COSS is
13 an analytic tool commonly used to determine the total cost and equitable assignment of
14 cost responsibility to customers. This is accomplished by identifying, functionalizing,
15 classifying, and allocating the allowable costs to customer classes in the manner that
16 customers cause those costs to be incurred.

17 **Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S PROPOSED**
18 **PRODUCTION COST ALLOCATION METHODOLOGY?**

19 A. My understanding is that the Company proposes to allocate the production cost using
20 a loss of load probability ("LOLP") methodology. LOLP is an hourly determination of
21 the probability that a utility generating capacity will be insufficient to meet the demand
22 for electricity. Production plant costs are allocated to various classes based on each

1 class' contribution to the LOLP over a specified period. Specifically, the Company
2 based the allocation used in its COSS over the fully forecasted test year.

3 **Q. IS THE LOLP METHODOLOGY THE SAME METHODOLOGY USED IN**
4 **THE LAST RATE CASE?**

5 A. Yes.

6 **Q. DOES WALMART OPPOSE THE COMPANY'S PROPOSED COST OF**
7 **SERVICE STUDY?**

8 A. For the purposes of this docket, Walmart does not oppose the Company's proposed
9 COSS. However, to the extent that alternative cost of service models or modifications
10 to the Company's model are proposed by other parties, Walmart reserves the right to
11 address any such changes.

12 **Revenue Allocation**

13 **Q. WHAT IS REVENUE ALLOCATION?**

14 A. Revenue allocation, sometimes referred to as rate spread, is the assignment of the
15 revenue responsibility to each customer class. A revenue allocation that assigns
16 revenue to each class at its cost of service is free of inter-class subsidies. In contrast,
17 where revenue is allocated to a class at a level above its cost of service, that rate class
18 is subsidizing any rate class that is allocated revenue below its cost of service.

1 **Q. ARE THERE INSTANCES IN WHICH THE COMMISSION WOULD ASSIGN**
2 **DIFFERENT REVENUE TO INDIVIDUAL CLASSES THAN IS CALLED FOR**
3 **WITHIN THE COSS, RESULTING IN INTER-CLASS SUBSIDIES?**

4 A. Yes. At times, the regulator may find it necessary to approve a level of revenue
5 requirement to a particular class which differs from the cost responsibility amount
6 determined in the COSS. This is often driven by the need to ensure that customers are
7 not seriously adversely impacted by major changes to the level of rates. Other reasons
8 can include perceived differences in COSS results and reality, relative risks assigned
9 to classes, social goals associated with the role of the prices in a particular jurisdiction,
10 and response to the state of the economy within or external to the regulatory
11 jurisdiction. The Commission may exercise its discretion based on one or more of these
12 concerns to adjust revenue allocation to support policy or advance the public interest.
13 However, these adjustments often result in rates that are not cost-based and, as a result,
14 not just, reasonable, and equitable.

15 **Q. WHAT IS THE ULTIMATE GOAL WHEN ALLOCATING REVENUE?**

16 A. To the extent possible, inter-class subsidies should be eliminated through a revenue
17 allocation that reflects the cost of service. If this is not possible in the immediate case,
18 the Commission should establish a clear path to the elimination or reduction of
19 undesired subsidies, continually moving each class closer to their respective cost of
20 service until undesired subsidies are eliminated and price signals are improved. Where
21 proper price signals in the form of cost-based rates are in place, it generates overall
22 system efficiencies since customers understand the actual costs of the energy they use.

1 **Q. WHAT IS YOUR UNDERSTANDING OF THE PROCESS USED TO ARRIVE**
2 **AT THE COMPANY'S PROPOSED REVENUE ALLOCATION?**

3 A. It is my understanding that the Company, in general, is proposing a higher rate increase
4 to rate classes that have a lower than average rate of return and a lower rate increase to
5 rate classes that have a higher than average rate of return. *See* Testimony of Robert M.
6 Conroy, p. 13, lines 16-18.

7 **Q. HOW DOES THE COMPANY REPRESENT THE ACCURACY OF THE**
8 **PROPOSED CLASS REVENUES IN THEIR REFLECTION OF THE**
9 **UNDERLYING COSTS OF EACH CLASS?**

10 A. The Company represents this relationship in their cost of service results through the
11 use of class-specific rates of return. This can be converted into a class relative rate of
12 return ("RROR"), which describes the relationship between each class-specific rate of
13 return and the total system rate of return. A RROR greater than 100 percent means that
14 the rate class is paying rates in excess of the costs incurred to serve that class, and a
15 RROR less than 100 percent means that the rate class is paying rates less than the costs
16 incurred to serve that class. As such, when rates are set such that a class does not have
17 a RROR equal to 100 percent there are inter-class subsidies, as those rate classes with
18 a RROR greater than 100 percent shoulder some of the revenue responsibility burden
19 for the classes with a RROR less than 100 percent.

20 **Q. WHAT IS THE CURRENT AND PROPOSED RROR FOR EACH CLASS IN**
21 **LG&E'S PROPOSED REVENUE ALLOCATION?**

22 A. These are shown in Table 1. *See* Exhibit GWT-6.

1

2

Table 1: Present and Proposed Relative Rates of Return

Class Relative Rates of Return				
Customer Class	Present		Proposed	
	Rate of Return	Relative Rate of Return	Rate of Return	Relative Rate of Return
Residential - Rate RS, RTOD, VFD	2.69%	40%	3.71%	48%
General Service	11.74%	174%	12.84%	166%
Power Service Secondary	14.44%	215%	15.65%	202%
Power Service Primary	12.70%	189%	13.94%	180%
Time of Day Secondary	9.50%	141%	10.37%	134%
Time of Day Primary	9.52%	141%	10.46%	135%
Retail Transmission Service	12.57%	187%	13.72%	177%
Lighting Energy Service	18.96%	282%	18.96%	245%
Traffic Energy Service	16.64%	247%	16.63%	215%
Lighting and Restricted Lighting	7.49%	111%	8.07%	104%
Outdoor Sports Lighting	12.65%	188%	13.52%	174%
Special Contract	6.82%	101%	7.94%	102%
Total Jurisdiction	6.73%	100%	7.75%	100%
Source Testimony of Robert M. Conroy, Table 2.				

3

Q. DOES THE COMPANY'S PROPOSED REVENUE ALLOCATION MOVE RATE CLASSES CLOSER TO THEIR RESPECTIVE COSTS OF SERVICE?

4

5

A. Except for the Special Contract Class, all classes are moved toward their cost of service, though in several cases that movement is slight. The change in the RROR of the Special Contract Class indicates a very slight movement away from the class cost of service.

6

7

Q. AT THE COMPANY'S PROPOSED INCREASE, IS WALMART OPPOSED TO THE COMPANY'S REVENUE ALLOCATION?

8

9

A. No. At the proposed revenue requirement, Walmart does not oppose the Company's revenue allocation.

10

11

1 **Q. IF THE COMMISSION ULTIMATELY APPROVES A REVENUE**
2 **REQUIREMENT LESS THAN THAT PROPOSED BY THE COMPANY,**
3 **WHAT IS WALMART'S RECOMMENDATION TO THE COMMISSION FOR**
4 **APPLYING THE REDUCTION TO THE COMPANY'S PROPOSED**
5 **REVENUE ALLOCATION?**

6 A. If the Commission ultimately approves a revenue requirement less than that proposed
7 by the Company, the reduction in the proposed revenue requirement should be used to:
8 (1) further reduce existing intra-class subsidy burdens on the major classes; and (2)
9 reduce the overall impact on all customer classes. To accomplish both purposes, one-
10 quarter (1/4) of the reduction in the revenue requirement increase should be applied to
11 proportionately reduce the Company's proposed increase on the non-lighting classes
12 with a current RROR greater than 100 percent. The remaining three-quarters (3/4) of
13 the reduction should be used to proportionately reduce the Company's proposed
14 increase to all classes.

15 **TODP and TODS Rate Design**

16 **Q. BRIEFLY DESCRIBE THE TODP AND TODS RATES?**

17 A. Rates TODP and TODS are multi-part rates including a Basic Service Charge, an
18 Energy Charge, a Peak Demand Charge, an Intermediate Demand Charge, and a Base
19 Demand Charge. The Peak Demand Charge applies to billing demands that occur
20 during the weekday hours ("Peak Demand Period") from 1:00 PM to 7:00 PM during
21 the summer months of May through September ("Summer Peak Months") and during
22 the weekday hours from 6:00 AM to 12:00 PM during the winter months of October

1 through April ("Winter Peak Months"). The Intermediate Demand Charge applies to
2 billing demands that occur during the weekday hours ("Intermediate Demand Period")
3 from 10:00 AM to 10:00 PM during the Summer Peak Months and from 6:00 AM to
4 10:00 PM during the Winter Peak Months. The Base Demand Charge applies to the
5 billing demands that occur at any time during the month.

6 **Q. IS THE COMPANY PROPOSING ANY STRUCTURAL CHANGES TO RATE**
7 **TODP?**

8 A. No.

9 **Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S PROPOSED**
10 **CHANGES TO RATE TODS?**

11 A. The Company proposes to modify the billing determinants for the demand portions of
12 the rate to replace the kW billing demand charges with kVA billing demand charges.

13 **Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S REASON FOR**
14 **THE PROPOSED CHANGE TO THE BILLING DETERMINANTS FOR**
15 **DEMAND CHARGES FOR RATE TODS?**

16 A. I understand the Company is proposing this change to complete the transition of
17 demand billing from kW units to KVA units for the large customer rate schedules. See
18 Direct Testimony of William Steven Seelye, p. 34, lines 4-10.

1 **Q. IS WALMART OPPOSED TO THE PROPOSED MODIFICATION TO THE**
2 **BILLING DETERMINANTS USED FOR DEMAND CHARGES FROM A KW**
3 **CHARGE TO THE KVA CHARGE?**

4 A. No. Walmart does not oppose the change in billing determinants from kW units to kVA
5 units for the TODS Rate.

6 **Q. HAVE YOU REVIEWED THE DIRECT TESTIMONY OF JUSTIN BIEBER**
7 **ON BEHALF OF THE KROGER CO.?**

8 A. Yes.

9 **Q. DO YOU HAVE ANY COMMENTS ON THAT TESTIMONY?**

10 A. Yes, Walmart concurs in and supports the Direct Testimony of Justin Bieber and the
11 downward adjustment to the Company's revenue requirement that he has proposed.

12 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

13 A. Yes.

VERIFICATION

STATE OF ARKANSAS

)

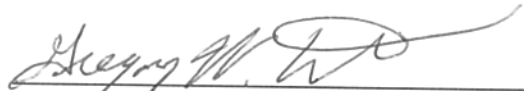
COUNTY OF BENTON

)

SS:

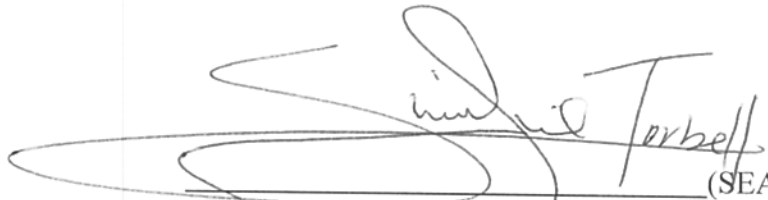
)

The undersigned, Gregory W. Tillman, being duly sworn, deposes and says that he is Senior Manager, Energy Regulatory Analysis for Walmart 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 16th day of January 2019.



Notary Public (SEAL)

My Commission Expires: 5.27.2020



**COMMONWEALTH OF KENTUCKY
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IN THE MATTER OF)
)
ELECTRONIC APPLICATION OF) **CASE NO. 2018-00295**
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COMPANY FOR AN ADJUSTMENT)
OF ITS ELECTRIC AND GAS RATES)

EXHIBITS OF
GREGORY W. TILLMAN
ON BEHALF OF
WALMART INC.

**COMMONWEALTH OF KENTUCKY
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OF ITS ELECTRIC AND GAS RATES)

EXHIBIT GWT-1

GREGORY W. TILLMAN

ON BEHALF OF

WALMART INC.

Gregory W. Tillman

Senior Manager, Energy Regulatory Analysis
Walmart Inc.

Business Address: 2001 SE 10th Street, Bentonville, AR, 72716-5530

Business Phone: (479) 204-7993

EXPERIENCE

November 2015 – Present

Walmart Inc., Bentonville, AR

Senior Manager, Energy Regulatory Analysis

November 2008 – November 2015

Oklahoma Gas & Electric, Oklahoma City, OK

Product Development Pricing Leader

Manager, Pricing

Senior Pricing Analyst

May 2006 – November 2008

LSG Solutions, Oklahoma City, OK

Project Manager, International Registration Plan/Interstate Fuel Tax Agreement Systems Development

August 2002 – May 2006

OnPeak Utility Solutions, Oklahoma City, OK

Owner/Consultant

May 2000 – August 2002

Automated Energy, Inc., Oklahoma City, OK

Vice President, Utility Solutions

November 1997 – May 2000

Williams Energy, Tulsa, OK

Sr. Manager Accounting Services

Process Manager, Customer Billing and Accounting

Retail Systems Manager, Billing and Electricity

May 1990 – November 1997

Public Service Company of Oklahoma, Tulsa, OK

Manager, Software Development and Support

Supervisor, Data Translation and Power Billing

Administrator, Disaster Recovery and Research and Development

Programmer/Analyst

June 1987 – May 1990

United States Army, Signal Command, Ft. Monmouth, NJ

Project Officer, Joint Tactical Information Distribution System

EDUCATION

1991-1994	The University of Tulsa	Graduate Coursework, M.B.A.
1987	The University of Tulsa	B.S., Electrical Engineering

TESTIMONY BEFORE REGULATORY COMMISSIONS

2019

Indiana Utility Regulatory Commission, Cause No. 45145, Petition of Duke Energy Indiana, Llc. For approval of a Solar Services Program Tariff, Rider No. 26, and approval of Alternative Regulatory Plan (“ARP”) and Declination of Jurisdiction to the extent required under Ind. Code 8-1-2.5-1, et. Seq.

2018

Michigan Public Service Commission Case No. U-20162. In the matter of the Application of DTE ELECTRIC COMPANY for authority to increase its rates for its rate schedules and rules governing the generation and distribution of electricity and for other relief.

Public Service Commission of West Virginia Case No. 18-0646-E-42T. Appalachian Power Company and Wheeling Power Company, Rule 42T Application to increase electric rates and charges.

Michigan Public Service Commission Case No. U-20134. In the matter of the Application of CONSUMERS ENERGY COMPANY for authority to increase its rates for its rate schedules and rules governing the generation and distribution of electricity and for other relief.

New Jersey Board of Public Utilities Docket Nos. ER18010029 and GR18010030, in the Matter of the Petition of Public Service Electric and Gas Company for Approval of an Increase in Electric and Gas Rates and for Changes in the Tariffs for Electric and Gas Service, B.P.U.N.J. No. 16 Electric and B.P.U.N.J. No. 16 Gas, and for Changes in Depreciation Rates, Pursuant to N.J.S.A. 48:2-18, N.J.S.A. 48.2-21, and N.J.S.A. 48:2-21.1, and for Other Appropriate Relief.

Public Utility Commission of Texas Docket No. 48371, in the Matter of Entergy Texas, Inc.’s Statement of Intent and Application for Authority to Change Rates.

Commonwealth of Virginia State Corporation Commission, Case No. PUR-2018-00048, Application of Appalachian Power Company for the Determination of the Fair Rate of Return on Common Equity Pursuant to Va. Code § 56-585.1:1.C.

Pennsylvania Public Utility Commission, Docket No. R-2018-3000164, Pennsylvania Public Utility Commission v. PECO Energy Company – Electric Division.

Pennsylvania Public Utility Commission, Docket No. R-2018-3000124, Pennsylvania Public Utility Commission v. Duquesne Light Company.

Public Utility Commission of Nevada, Docket No. 18-02010 Application of Nevada Power Company D/B/A Nv Energy Filed Under Advice Letter No. 485 To Revise Tariff No. 1-B To Establish The 2017 Tax Rate Reduction Rider; Docket No. 18-02011 Application of Application Of Sierra Pacific Power Company D/B/A Nv Energy Filed Under Advice Letter No. 605-E To Revise Electric Tariff No. 1 To Establish The 2017 Tax Rate Reduction Rider; and, Docket No. 18-02012 Application Of Sierra Pacific Power Company D/B/A Nv Energy Filed Under Advice Letter No. 326-G To Revise Gas Tariff No. 1 To Establish The 2017 Tax Rate Reduction Rider.

Indiana Utility Regulatory Commission, Cause No. 45029, Petition of Indianapolis Power & Light Company ("IPL") for (1) Authority to Increase Rates and Charges for Electric Utility Service, (2) Approval of Revised Depreciation Rates, Accounting Relief, Including Update of the Major Storm Damage Restoration Reserve Account, Approval of a Vegetation Management Reserve Account, Inclusion in Basic Rates and Charges of the Costs of Certain Previously Approved Projects, Including the Eagle Valley Combined Cycle Gas Turbine, the National Pollution Discharge Elimination System and Coal Combustion Residuals Compliance Projects, Rate Adjustment Mechanism Proposals, Cost Deferrals, Amortizations, and (3) Approval of New Schedules of Rates, Rules and Regulations for Service.

Oklahoma Corporation Commission Cause No. PUD 201700496: In the Matter of the Application of Oklahoma Gas and Electric Company for an Order of the Commission Authorizing Applicant to Modify its Rates, Charges, and Tariffs for Retail Electric Service in Oklahoma

Public Utility Commission of Texas Docket No. 47527, in the matter of the Application of Southwestern Public Service for Authority to Change Rates.

The Rhode Island Public Utilities Commission Docket No. 4770: In re: The Narragansett Electric Company d/b/a National Grid Electric and Gas Distribution Rate Filing.

Connecticut Public Utilities Regulatory Authority Docket No. 17-10-46: Application of the Connecticut Light and Power Company D/B/A Eversource Energy to Amend its Rate Schedules.

2017

Indiana Utility Regulatory Commission Cause No. 44967-NONE: Petition of Indiana Michigan Power Company, an Indiana corporation, for (1) authority to increase its rates and charges for electric utility service through a phase in rate adjustment; (2) approval of: revised depreciation rates; accounting relief; inclusion in basic rates and charges of qualified pollution control property, clean energy projects and cost of bringing I&M's system to its present state of efficiency; rate adjustment mechanism proposals; cost deferrals; major storm damage restoration reserve and distribution vegetation management program reserve; and amortizations; and (3) for approval of new schedules of rates, rules and regulations.

Public Service Commission of Wisconsin Docket No. 4220-UR-123: Application of Northern States Power Company, a Wisconsin Corporation for Authority to Adjust Electric and Natural Gas Rates

Michigan Public Service Commission Case No. U-18255. In the matter of the Application of DTE ELECTRIC COMPANY for authority to increase its rates for its rate schedules and rules governing the generation and distribution of electricity and for other relief.

Michigan Public Service Commission Case No. U-18322. In the matter of the Application of CONSUMERS ENERGY COMPANY for authority to increase its rates for its rate schedules and rules governing the generation and distribution of electricity and for other relief.

Iowa Utilities Board Docket No. RPU-2017-0001: In re: Interstate Power and Light Company.

Public Service Commission of Kentucky Case No. 2017-00179: In the Matter of the 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.

Public Service Commission of Kentucky Case No. 2016-00370: In the Matter of the Electronic Application of Kentucky Utilities Company for an Adjustment of Its Electric Rates and for Certificates of Public Convenience and Necessity.

Public Service Commission of Kentucky Case No. 2016-00371: In the Matter of the 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.

2016

Arizona Corporation Commission Docket No. E-01345A-16-0036: In the Matter of the Application of Arizona Public Service Company for a Hearing to Determine the Fair Value of the Utility Property of the Company for Ratemaking Purposes, to Fix a Just and Reasonable Rate of Return Thereon, to Approve Rate Schedules Designed to Develop Such Return.

Public Service Commission of South Carolina Docket No. 2016-227-E: IN RE: Application of Duke Energy Progress, LLC for Authority to Adjust and Increase Its Electric Rates and Charges

Arkansas Public Service Commission Docket No. 16-027-R: In The Matter of Net Metering and The Implementation of Act 827 of 2015.

Public Utility Commission of Texas Docket No. 45524, in the matter of the Application of Southwestern Public Service for Authority to Change Rates

Public Service Commission of Wisconsin Docket No. 4220-UR-122: Application of Northern States Power Company, a Wisconsin Corporation for Authority to Adjust Electric and Natural Gas Rates

Michigan Public Service Commission Case No. U-18014. In the matter of the Application of DTE ELECTRIC COMPANY for authority to increase its rates, amend its rate schedules and rules governing the distribution and supply of electric energy, and for miscellaneous accounting authority.

Arizona Corporation Commission Docket No. E-01933A-15-0322: In the Matter of the Application of Tucson Electric Power Company For the Establishment of Just and Reasonable Rates and Charges Designed to Realize a Reasonable Rate of Return on the Fair Value of the Properties of Tucson Electric Power Company Devoted to its Operations Throughout the State of Arizona, and for Related Approvals.

2015

Arizona Corporation Commission Docket No. E-04204A-15-0142: In the Matter of the Application of UNS Electric, Inc. For the Establishment of Just and Reasonable Rates and Charges Designed to Realize a Reasonable Rate of Return on the Fair Value of the Properties of UNS Electric, Inc. Devoted to Its Operations Throughout the State of Arizona, and for Related Approvals.

2012

Arkansas Public Service Commission Docket No. 12-067-U: In the Matter of the Application of Oklahoma Gas and Electric Company for an Order Approving a Temporary Surcharge to Recover the Costs of a Renewable Wind Generation Facility

2011

Oklahoma Corporation Commission Cause No. PUD 201100087: In the Matter of the Application of Oklahoma Gas and Electric Company for an Order of the Commission Authorizing Applicant to Modify its Rates, Charges, and Tariffs for Retail Electric Service in Oklahoma

2010

Arkansas Public Service Commission Docket No. 10-067-U: In the Matter of the Application of Oklahoma Gas and Electric Company for Approval of a General Change in Rates and Tariffs

**COMMONWEALTH OF KENTUCKY
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EXHIBIT GWT-2

GREGORY W. TILLMAN

ON BEHALF OF

WALMART INC.

Estimation of Annualized Bill Impact of the Termination of the TCJA Surcredit

Class	Annual kWh	TCJA SurCredit Rate	Annualized TCJA Surcredit
	Source: Exhibit WSS-29, p. 31		
Residential Rate RS	4,077,649,481	\$ (0.00570)	\$ 23,242,602.04
General Service Rate GS	1,279,758,520	\$ (0.00437)	\$ 5,592,544.73
Power Service Primary	106,576,756	\$ (0.00437)	\$ 465,740.42
Power Service Secondary	1,738,411,680	\$ (0.00437)	\$ 7,596,859.04
TOD Primary	2,040,264,401	\$ (0.00437)	\$ 8,915,955.43
TOD Secondary	1,188,694,214	\$ (0.00437)	\$ 5,194,593.72
Retail Transmission Service	1,056,222,221	\$ (0.00437)	\$ 4,615,691.11
Special Contract	56,985,483	\$ (0.00437)	\$ 249,026.56
Street Lighting Rate (RLS & LS)	101,326,373	\$ (0.00437)	\$ 442,796.25
Lighting Energy Rate LE	4,055,711	\$ (0.00437)	\$ 17,723.46
Traffic Energy Rate TLE	3,222,969	\$ (0.00437)	\$ 14,084.37
Outdoor School Lighting	24,000	\$ (0.00437)	\$ 104.88
Total Jurisdiction	11,653,191,809		\$ 56,347,722.02

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EXHIBIT GWT-3

GREGORY W. TILLMAN

ON BEHALF OF

WALMART INC.

Calculation of Revenue Requirement Impact of LG&E's Proposed Increase in ROE

(1)	Schedule J-1	LGE Requested Rate of Return on Capitalization		7.62%		
		1) Calculate Rate of Return Using the Current ROE (ROE = 9.7%)				
		Capital Component	Percent of Total	Percent of Total Capital	Cost	Weighted Cost
(2)	Schedule J-1.1/J-1.2	Short-term Debt	1.25%	1.89%	3.23%	0.06%
(3)	Schedule J-1.1/J-1.2	Long-term Debt	45.91%	45.27%	4.38%	1.98%
(4)	(ROE = 10.0%)	Common Equity	52.84%	52.84%	9.70%	5.13%
(5)	(2)+(3)+(4)	Rate of Return (ROE = 9.7%)				7.17%
		2) Calculate Revenue Requirement Impact at the Propose ROE				
(6)	Schedule J-1.1/J-1.2	Total Capitalization (\$000)			\$ 2,593,435	
(7)	= (5)	Rate of Return (ROE = 9.7%)			7.17%	
(8)	(6) x (7)	Adjusted Income Requirement (ROE = 9.7%)			\$ 185,932	
(9)	Schedule C-1	LG&E Proposed Income Requirement (\$000)			\$ 197,498	
(10)	(9) - (8)	Difference in Income Requirement (\$000)			\$ 11,566	
(11)	Schedule H-1	Conversion Factor			1.3376	
(12)	(10) x (11)	Difference in Revenue Requirement (\$000)			\$ 15,470	
(13)	Schedule M-2.1	Requested Revenue Requirement Increase (\$000)			\$ 34,978	
(14)	(12) / (13)	Percent of Increase from ROE Increase			44.23%	

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EXHIBIT GWT-4

GREGORY W. TILLMAN

ON BEHALF OF

WALMART INC.

Calculation of Revenue Requirement Impact of Including CWIP in Rate Base

<u>Line No.</u>	<u>Units</u>	<u>Description</u>	<u>Source</u>	<u>Amount</u>
(1)	(\$000)	Proposed CWIP Included in Rate Base	Schedule B-4	\$ 42,299
(2)	(\$000)	Proposed Total Rate Base	Schedule B-1	\$ 2,548,077
(3)		CWIP Percentage of Rate Base	(1) / (2)	1.66%
(4)		Proposed Rate of Return on Rate Base	Schedule C-1	7.75%
(5)		Gross Revenue Adjustment Factor	Schedule H-1	1.3376
(6)	(\$000)	Revenue Requirement from CWIP	(1) x (4) x (5)	\$ 4,385

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EXHIBIT GWT-5

GREGORY W. TILLMAN

ON BEHALF OF

WALMART INC.

Reported Authorized Returns on Equity, Electric Utility Rate Cases Completed, 2015 to Present

State	Utility	Docket	Decision Date	Vertically Integrated (V)/Distribution (D)	Return on Equity (%)
Washington	Avista Corp.	UE-150204	1/6/2016	V	9.50%
Arkansas	Entergy Arkansas Inc.	15-015-U	2/13/2016	V	9.75%
Indiana	Indianapolis Power & Light Co.	44576	3/16/2016	V	9.85%
Massachusetts	Fitchburg Gas & Electric Light	15-80	4/29/2016	D	9.80%
Maryland	Baltimore Gas and Electric Co.	9406	6/3/2016	D	9.75%
New Mexico	El Paso Electric Co.	15-00127-UT	6/8/2016	V	9.48%
New York	NY State Electric & Gas Corp.	15-E-0283	6/15/2016	D	9.00%
New York	Rochester Gas & Electric Corp.	15-E-0285	6/15/2016	D	9.00%
Indiana	Northern Indiana Public Service Co.	44688	7/18/2016	V	9.98%
Tennessee	Kingsport Power Company	16-00001	8/9/2016	V	9.85%
Arizona	UNS Electric Inc.	E-04204A-15-0142	8/18/2016	V	9.50%
New Jersey	Atlantic City Electric Co.	ER-16030252	8/24/2016	D	9.75%
Washington	PacifiCorp	UE-152253	9/1/2016	V	9.50%
Michigan	Upper Peninsula Power Co.	U-17895	9/8/2016	V	10.00%
New Mexico	Public Service Co. of NM	15-00127-UT	9/28/2016	V	9.58%
Massachusetts	Massachusetts Electric Co.	15-155	9/30/2016	D	9.90%
Wisconsin	Madison Gas and Electric Co.	3270-UR-121	11/9/2016	V	9.80%
Oklahoma	Public Service Company of OK	PUD 201500208	11/10/2016	V	9.50%
Maryland	Potomac Electric Power Co.	9418	11/15/2016	D	9.55%
Wisconsin	Wisconsin Power and Light Co	6680-UR-120	11/18/2016	V	10.00%
Florida	Florida Power & Light Co.	160021-EI	11/29/2016	V	10.55%
California	Liberty Utilities CalPeco	A15-05-008	12/1/2016	V	10.00%
Illinois	Ameren Illinois	16-0262	12/6/2016	D	8.64%
Illinois	Commonwealth Edison Co.	16-0259	12/6/2016	D	8.64%
South Carolina	Duke Energy Progress Inc.	2016-227-E	12/7/2016	V	10.10%
New Jersey	Jersey Central Power & Light Co.	ER-16040383	12/12/2016	D	9.60%
Connecticut	United Illuminating Co.	16-06-04	12/14/2016	D	9.10%
Colorado	Black Hills Colorado Electric	16AL-0326E	12/19/2016	V	9.37%
Maine	Emera Maine	2015-00360	12/19/2016	D	9.00%
North Carolina	Virginia Electric & Power Co.	E-22 Sub 532	12/22/2016	V	9.90%
Nevada	Sierra Pacific Power Co.	16-06006	12/22/2016	V	9.60%
Idaho	Avista Corp.	AVU-E-16-03	12/28/2016	V	9.50%
Wyoming	MDU Resources Group Inc.	2004-117-ER-16	1/18/2017	V	9.45%
New York	Consolidated Edison Co. of NY	16-E-0060	1/24/2017	D	9.00%
Michigan	DTE Electric Co.	U-18014	1/31/2017	V	10.10%
Maryland	Delmarva Power & Light Co.	9424	2/15/2017	D	9.60%
New Jersey	Rockland Electric Company	ER-16050428	2/22/2017	D	9.60%
Arizona	Tucson Electric Power Co.	E-01933A-15-0322	2/24/2017	V	9.75%
Michigan	Consumers Energy Co.	U-17990	2/28/2017	V	10.10%
Minnesota	Otter Tail Power Co.	E-017/GR-15-1033	3/2/2017	V	9.41%
Oklahoma	Oklahoma Gas & Electric Co.	PUD 201500273	3/20/2017	V	9.50%
Florida	Gulf Power Co.	160186-EI	4/4/2017	V	10.25%
New Hampshire	Liberty Utilities Granite St	DE-16-383	4/12/2017	D	9.40%
New Hampshire	Unitil Energy Systems Inc.	DE-16-384	4/20/2017	D	9.50%
Missouri	Kansas City Power & Light	ER-2016-0285	5/3/2017	V	9.50%
Minnesota	Northern States Power Co.	E-022/GR-15-826	5/11/2017	V	9.20%
Arkansas	Oklahoma Gas & Electric Co.	16-052-U	5/18/2017	V	9.50%
Delaware	Delmarva Power & Light Co.	16-0649	5/23/2017	D	9.70%
North Dakota	MDU Resources Group Inc.	PU-16-666	6/16/2017	V	9.65%
Kentucky	Kentucky Utilities Co.	2016-00370	6/22/2017	V	9.70%
Kentucky	Louisville Gas & Electric Co.	2016-00371	6/22/2017	V	9.70%
District of Columbia	Potomac Electric Power Co.	FC-1139	7/24/2017	D	9.50%
Arizona	Arizona Public Service Co.	E-01345A-16-0036	8/15/2017	V	10.00%

Reported Authorized Returns on Equity, Electric Utility Rate Cases Completed, 2015 to Present

State	Utility	Docket	Decision Date	Vertically Integrated (V)/Distribution (D)	Return on Equity (%)
New Jersey	Atlantic City Electric Co.	D-ER-17030308	9/22/2017	D	9.60%
Texas	Oncor Electric Delivery Co.	45957	9/28/2017	D	9.80%
Maryland	Potomac Electric Power Co.	9443	10/20/2017	D	9.50%
California	Pacific Gas & Electric Co.	Advice No. 5148-E	10/26/2017	V	10.25%
California	San Diego Gas & Electric Co.	Advice No. 3120-E	10/26/2017	V	10.20%
California	Southern California Edison Co.	Advice No. 3665-E	10/26/2017	V	10.30%
Florida	Tampa Electric Co.	20170210-EI	11/6/2017	V	10.25%
Alaska	Alaska Electric Light Power	U-16-086	11/15/2017	V	11.95%
Massachusetts	NSTAR Electric Co.	17-05	11/30/2017	D	10.00%
Massachusetts	Western Massachusetts Electric	17-05	11/30/2017	D	10.00%
Washington	Puget Sound Energy Inc.	UE-170033	12/5/2017	V	9.50%
Illinois	Ameren Illinois	17-0197	12/6/2017	D	8.40%
Illinois	Commonwealth Edison Co.	17-0196	12/6/2017	D	8.40%
Wisconsin	Northern States Power Co. - WI	D-4220-UR-123	12/7/2017	V	9.80%
Texas	El Paso Electric Co.	46831	12/14/2017	V	9.65%
Texas	Southwestern Electric Power Co.	46449	12/14/2017	V	9.60%
Oregon	Portland General Electric Co.	UE 319	12/18/2017	V	9.50%
New Mexico	Public Service Co. of NM	16-00276-UT	12/20/2017	V	9.58%
Idaho	Avista Corp.	AVU-E-17-01	12/28/2017	V	9.50%
Nevada	Nevada Power Co.	17-06003	12/29/2017	V	9.40%
Vermont	Green Mountain Power Corp	17-3112-INV	12/21/2017	V	9.10%
Kentucky	Kentucky Power Co.	C-2017-00179	1/18/2018	V	9.70%
Oklahoma	Public Service Co. of OK	Ca-PUD201700151	1/31/2018	V	9.30%
Iowa	Interstate Power & Light Co.	D-RPU-2017-0001	2/2/2018	V	9.98%
North Carolina	Duke Energy Progress Inc.	D-E-2, Sub 1142	2/23/2018	V	9.90%
Minnesota	ALLETE (Minnesota Power)	D-E-015/GR-16-664	3/12/2018	V	9.25%
New York	Niagara Mohawk Power Corp.	C-17-E-0238	3/15/2018	D	9.00%
Michigan	Consumers Energy Co.	C-U-18322	3/29/2018	V	10.00%
Connecticut	Connecticut Light and Power	D-17-10-46	4/18/2018	D	9.25%
Michigan	DTE Electric Co.	C-U-18255	4/18/2018	V	10.00%
Washington	Avista Corp.	D-UE-170485	4/26/2018	V	9.50%
Indiana	Indiana Michigan Power Co.	Ca-44967	5/30/2018	V	9.95%
Maryland	Potomac Electric Power Co.	C-9472	5/31/2018	D	9.50%
New York	Central Hudson Gas & Electric	C-17-E-0459	6/14/2018	D	8.80%
North Carolina	Duke Energy Carolinas LLC	D-E-7, Sub 1146	6/22/2018	V	9.90%
Maine	Emera Maine	D-2017-00198	6/28/2018	D	9.35%
Hawaii	Hawaii Electric Light Co	D-2015-0170	6/29/2018	V	9.50%
District of Columbia	Potomac Electric Power Co.	FC-1150	8/8/2018	D	9.53%
Delaware	Delmarva Power & Light Co.	D-17-0977	8/21/2018	D	9.70%
Rhode Island	Narragansett Electric Co.	D-4770 (electric)	8/24/2018	D	9.28%
New Mexico	Southwestern Public Service Co	C-17-00255-UT	9/5/2018	V	9.10%
Wisconsin	Wisconsin Power and Light Co	D-6680-UR-121 (Elec)	9/14/2018	V	10.00%
Wisconsin	Madison Gas and Electric Co.	D-3270-UR-122 (Elec)	9/20/2018	V	9.80%
North Dakota	Otter Tail Power Co.	C-PU-17-398	9/26/2018	V	9.77%
Ohio	Dayton Power and Light Co.	C-15-1830-EL-AIR	9/26/2018	D	9.999% *
Kansas	Westar Energy Inc.	D-18-WSEE-328-RTS	9/27/2018	V	9.30%
Pennsylvania	UGI Utilities Inc.	D-R-2017-2640058	10/4/2018	D	9.85%
New Jersey	Public Service Electric Gas	D-ER18010029	10/29/2018	D	9.60%
Indiana	Indianapolis Power & Light Co.	Ca-45029	10/31/2018	V	9.99%
Illinois	Ameren Illinois	D-18-0807	11/1/2018	D	8.69%
Illinois	Commonwealth Edison Co.	D-18-0808	12/4/2018	D	8.69%

Reported Authorized Returns on Equity, Electric Utility Rate Cases Completed, 2015 to Present

State	Utility	Docket	Decision Date	Vertically Integrated (V)/Distribution (D)	Return on Equity (%)
Kansas	Kansas City Power & Light	D-18-KCPE-480-RTS	12/13/2018	V	9.30%
Oregon	Portland General Electric Co.	D-UE-335	12/14/2018	V	9.50%
Ohio	Duke Energy Ohio Inc.	C-17-0032-EL-AIR	12/19/2018	D	9.84%
Texas	Texas-New Mexico Power Co.	D-48401	12/20/2018	D	9.65%
Wisconsin	Madison Gas and Electric Co.	D-3270-UR-122 (Elec)	12/20/2018	V	9.80%
Vermont	Green Mountain Power Corp.	C-18-0974-TF	12/21/2018	D	9.30%
Entire Period					
# of Decisions		110			
Average (All Utilities)					9.61%
Average (Distribution Only)					9.38%
Average (Vertically Integrated Only)					9.75%
Median					9.60%
Minimum					8.40%
Maximum					11.95%
2016					
# of Decisions		32			
Average (All Utilities)					9.60%
Average (Distribution Only)					9.31%
Average (Distribution Only, exc. IL FRP)					9.45%
Average (Vertically Integrated Only)					9.77%
2017					
# of Decisions		42			
Average (All Utilities)					9.68%
Average (Distribution Only)					9.43%
Average (Distribution Only, exc. IL FRP)					9.61%
Average (Vertically Integrated Only)					9.80%
2018					
# of Decisions		36			
Average (All Utilities)					9.54%
Average (Distribution Only)					9.38%
Average (Distribution Only, exc. IL FRP)					9.47%
Average (Vertically Integrated Only)					9.68%

Source: SNL Financial LC, January 3, 2019

* Due to Rounding, the ROE Award is reported as 10.00 on the SNL Website.

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

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

EXHIBIT GWT-6

GREGORY W. TILLMAN

ON BEHALF OF

WALMART INC.

Class Relative Rates of Return				
Customer Class	Present		Proposed	
	Rate of Return	Relative Rate of Return	Rate of Return	Relative Rate of Return
Residential - Rate RS, RTOD, VFD	2.69%	40%	3.71%	48%
General Service	11.74%	174%	12.84%	166%
Power Service Secondary	14.44%	215%	15.65%	202%
Power Service Primary	12.70%	189%	13.94%	180%
Time of Day Secondary	9.50%	141%	10.37%	134%
Time of Day Primary	9.52%	141%	10.46%	135%
Retail Transmission Service	12.57%	187%	13.72%	177%
Lighting Energy Service	18.96%	282%	18.96%	245%
Traffic Energy Service	16.64%	247%	16.63%	215%
Lighting and Restricted Lighting	7.49%	111%	8.07%	104%
Outdoor Sports Lighting	12.65%	188%	13.52%	174%
Special Contracts	6.82%	101%	7.94%	102%
Total Jurisdiction	6.73%	100%	7.75%	100%
Source Testimony of Robert M. Conroy, Table 2.				

ATTACHMENT B

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

PREFILED DIRECT TESTIMONY OF
JUSTIN BIEBER
ON BEHALF OF THE KROGER CO.

January 16, 2019

1 **DIRECT TESTIMONY OF JUSTIN BIEBER**

2

3 **Introduction**

4 **Q. Please state your name and business address.**

5 A. My name is Justin Bieber. My business address is 215 South State Street, Suite
6 200, Salt Lake City, Utah 84111.

7 **Q. By whom are you employed and in what capacity?**

8 A. I am a Senior Consultant at Energy Strategies, LLC. Energy Strategies is a
9 private consulting firm specializing in economic and policy analysis applicable to energy
10 production, transportation, and consumption.

11 **Q. On whose behalf are you testifying in this proceeding?**

12 A. My testimony is being sponsored by The Kroger Co. (“Kroger”). Kroger is one of
13 the largest retail grocers in the United States, and operates over thirty stores and other
14 facilities in the territory served by Louisville Gas and Electric (“LG&E”). These
15 facilities purchase in excess of 90 million kilowatt-hours annually from LG&E.

16 **Q. Please describe your professional experience and qualifications.**

17 A. My academic background is in business and engineering. I earned a Bachelor of
18 Science in Mechanical Engineering from Duke University in 2006 and a Master of
19 Business Administration from the University of Southern California in 2012. In 2017, I
20 completed Practical Regulatory Training for the Electric Industry sponsored by the New
21 Mexico State University Center for Public Utilities and the National Association of
22 Regulatory Utility Commissioners. I am also a registered Professional Civil Engineer in
23 the State of California.

1 I joined Energy Strategies in January 2017, where I provide regulatory and
2 technical support on a variety of energy issues, including regulatory services,
3 transmission and renewable development, and financial and economic analyses. During
4 the time I have worked at Energy Strategies, I have filed and supported the development
5 of testimony before several different state utility regulatory commissions.

6 Prior to joining Energy Strategies, I held positions at Pacific Gas and Electric
7 Company as Manager of Transmission Project Development, ISO Relations and FERC
8 Policy Principal, and Supervisor of Electric Generator Interconnections. During my
9 career at Pacific Gas and Electric Company, I supported multiple facets of utility
10 operations, and led efforts in policy, regulatory, and strategic initiatives, including
11 supporting the development of testimony before and submittal of comments to the FERC,
12 California ISO, and the California Public Utility Commission.

13 **Q. Have you previously testified before this Commission?**

14 A. Yes. I testified in Duke Energy Kentucky, Inc's 2017 base rate case, Case No.
15 2017-00321.

16 **Q. Have you testified before any other state utility regulatory commissions?**

17 A. Yes. I have testified before the Indiana Utility Regulatory Commission, the
18 Michigan Public Service Commission, the North Carolina Utilities Commission, the
19 Public Utilities Commission of Ohio, and the Public Utility Commission of Oregon.

20

21

1 **Overview and Recommendations**

2 **Q. What is the purpose of your testimony in this proceeding?**

3 A. My testimony addresses LG&E's proposal to use the capitalization methodology
4 of property valuation as the basis for computing LG&E's return component of its revenue
5 requirement. LG&E's use of this method in this proceeding results in a valuation that is
6 significantly greater than the net value of LG&E's rate base assets that are used and
7 useful in providing electric service to its customers.

8 **Q. Please summarize your conclusions and recommendations.**

9 A. The jurisdictional capitalization proposed by LG&E is approximately \$45.4
10 million greater than its proposed jurisdictional rate base. I recommend that the
11 Commission reject LG&E's proposal to earn a return on the portion of its proposed
12 capitalization that is in excess of the value of the used and useful assets that comprise its
13 rate base.

14

15 **Capitalization versus Rate Base**

16 **Q. Please explain how LG&E computes the operating income component of its**
17 **proposed revenue requirement.**

18 A. LG&E proposes to use the capitalization methodology of property valuation as
19 the basis for computing its proposed return. The proposed operating income is the
20 product of the proposed rate of return, which is equal to 7.62%, multiplied by the
21 proposed capitalization of \$2,593,434,547. To determine the return component of the
22 revenue requirement, the proposed operating income is grossed up for taxes by

1 multiplying the proposed operating income by LG&E's gross revenue conversion factor
2 of 1.34.¹

3 **Q. What alternative property valuation methodologies did LG&E consider?**

4 A. According to LG&E witness Christopher Garrett, Section 278.290 of the
5 Kentucky Revised Statutes requires the Commission to give due consideration to three
6 quantifiable values, including original cost rate base, cost of reproduction as a going
7 concern, and capital structure.²

8 **Q. What reasons does LG&E provide to support its decision not to use the cost of
9 reproduction as a going concern methodology for property valuation?**

10 A. Mr. Garrett explains that the Commission has consistently found that this
11 methodology is not the most appropriate or reasonable measure for rate of return
12 valuation. Mr. Garrett explains that it typically leads to a significantly higher revenue
13 requirement than the capitalization or rate base methodologies and that the United States
14 Supreme Court has been critical of this methodology for ratemaking purposes.
15 Therefore, LG&E did not feel it was necessary or productive to present results using this
16 methodology.³

17 **Q. What reasons does LG&E provide to support its proposed use of the capitalization
18 methodology instead of rate base?**

19 A. According to Mr. Garrett the Commission has approved the capitalization
20 methodology in LG&E's past six rate cases. Mr. Garrett refers to the Commission's prior
21 order in Case No. 2000-00080 which states that the Commission "will consider using an

¹ Direct Testimony of Christopher M. Garrett, Appendix A – Rate Schedule A.

² Id, p. 4.

³ Id, pp. 7-8.

1 approach different from that previously used” only if a justification exists.⁴ Mr. Garrett
2 claims that sufficient justification does not exist to support departing from more than 40
3 years of using the capitalization methodology.⁵

4 Mr. Garrett also asserts that the Commission has indicated a preference for the use
5 of capitalization instead of rate base through its prior order in Case No. 2000-00080.⁶
6 Lastly, Mr. Garrett states that LG&E believes capitalization is the appropriate measure
7 given LG&E’s lack of unregulated activities. Mr. Garrett refers to the Commission’s
8 positions in Case Nos. 1998-00426 and 2000-00080, which state that “while rate base and
9 capitalization theoretically should be equal, it is rare that this happens,”⁷ and “when a
10 utility’s capitalization exceeds rate base, it raises concerns that a portion of the
11 capitalization has been used to finance non-regulated activities.”⁸ According to Mr.
12 Garrett, no portion of LG&E’s capitalization has been used to fund non-regulated
13 activities, and therefore, LG&E sees no reason to change the valuation methodology
14 under these circumstances.⁹

⁴ Direct Testimony of Christopher M. Garrett, p. 5. See also, In the Matter of: The Application of Louisville Gas & Electric Company to adjust and to Increase its Charges for Disconnecting Service, Reconnection Service, and Returned Checks, Case No. 2000-00080, Order at 7 (Ky. PSC Sept. 27, 2000).

⁵ Direct Testimony of Christopher M. Garrett, p. 5.

⁶ Id.

⁷ In the Matter of: Application of Louisville Gas and Electric Company for Approval of an Alternative Method of Regulation of its Rate and Service, case No. 1998-00426, Order at 3 (Ky. PSC June 1, 1998).

⁸ In the Matter of: The Application of Louisville Gas & Electric Company to adjust and to Increase its Charges for Disconnecting Service, Reconnection Service, and Returned Checks, Case No. 2000-00080, Order at 5 (Ky. PSC Sept. 27, 2000).

⁹ Direct Testimony of Christopher M. Garrett, p. 6.

1 **Q. What are the results of LG&E’s proposed property valuation using the**
2 **capitalization and rate base methodologies?**

3 A. LG&E proposes a Kentucky jurisdictional capitalization of \$2,593,434,547
4 compared to a rate base of \$2,548,077,150.¹⁰ The difference between these two
5 methodologies is \$45,357,397.

6 **Q. Do you have any concerns with LG&E’s proposal to use its jurisdictional electric**
7 **capitalization as the basis for computing its revenue requirement?**

8 A. Yes, I do. The jurisdictional electric capitalization presented by LG&E is
9 significantly greater than the Company’s rate base. As such, it represents a valuation that
10 is in excess of the net value of assets that are used and useful in providing electric service
11 to customers. I have serious concerns with allowing a return on a valuation that exceeds
12 the net value of the assets that are used and useful for providing electric service to
13 customers.

14 **Q. LG&E witness Mr. Garrett asserts that there is not sufficient justification to**
15 **support a change from the capitalization valuation methodology which the**
16 **Commission has approved in its prior six rate cases.¹¹ Do you agree?**

17 A. No, I do not. In LG&E’s prior six rate cases, LG&E’s capitalization value did not
18 exceed its rate base. The circumstances of this instant case differ in a very important way
19 from LG&E’s prior rate cases, because in this case, the capitalization valuation exceeds
20 the rate base valuation by \$45.4 million. According to LG&E’s response to Kroger’s and
21 Walmart’s Requests for Information, the Company is not aware of any case where the

¹⁰ Id.

¹¹ Direct Testimony of Christopher M. Garrett, p. 5.

1 Commission has approved LG&E to earn a return on a capitalization valuation that
2 exceeds its rate base.¹²

3 **Q. Please provide the citation that Mr. Garrett relies upon to support his assertion that**
4 **the Commission has indicated a preference for the use of capitalization instead of**
5 **rate base.**

6 A. To support his assertion that the Commission has indicated a preference for the
7 capitalization methodology instead of the rate base methodology, Mr. Garrett cites the
8 following from the Commission’s order in Case No. 2000-00080¹³:

9 *“The capitalization of the utility is a better measure of the real cost of providing*
10 *service since it is the cost of debt and equity that is reflected in the financial*
11 *statements of the utility. To impute the operating income requirements based on*
12 *an inflated rate base in effect establishes a cost of doing business that is non-*
13 *existent to the utility.”¹⁴*
14

15 **Q. What is your assessment of Mr. Garrett’s claim that the Commission has indicated a**
16 **preference for the capitalization methodology.**

17 A. Mr. Garrett’s claim that the Commission has indicated a preference for the
18 capitalization methodology fails to recognize the important difference in circumstances in
19 this case, namely that the proposed capitalization significantly exceeds the proposed rate
20 base. In adopting the capitalization methodology in Case No. 2000-00080, the
21 Commission specifically noted that “to impute the operating income requirements based
22 on an inflated rate base in effect establishes a cost of doing business that is non-existent

¹² Kentucky Utilities Company Response to First Request for Information of the Kroger Company and Walmart Inc. Question No. 6 (b), November 13, 2018.

¹³ Direct Testimony of Christopher M. Garrett, p. 5.

¹⁴ In the Matter of: The Application of Louisville Gas & Electric Company to adjust and to Increase its Charges for Disconnecting Service, Reconnection Service, and Returned Checks, Case No. 2000-00080, Order at 11 (Ky. PSC Sept. 27, 2000).

1 to the utility.”¹⁵ The Commission recognized that it would be inappropriate to allow the
2 utility to earn a return based on costs that the utility did not incur. The converse is true
3 here. It would be inappropriate for the utility to earn on a return on a valuation that is in
4 excess of the net value of assets that are used and useful for providing electric service to
5 customers.

6 **Q. Mr. Garrett claims that capitalization is an appropriate methodology for LG&E’s**
7 **property valuation because it does not have any unregulated activities.¹⁶ What is**
8 **your response?**

9 A. It would clearly be unreasonable to allow a utility to earn a return on a portion of
10 its capitalization if those funds were being used for unregulated activities. However, the
11 fact that LG&E asserts that it is not using a portion of its capitalization to fund
12 unregulated activities does not mitigate my concerns with allowing LG&E to earn a
13 return on a portion of its proposed capitalization valuation that exceeds the net value of
14 the rate base assets that are used and useful for providing service to customers.

15 **Q. What is your recommendation regarding the valuation methodology to be utilized to**
16 **compute a reasonable return for LG&E?**

17 A. To the extent that the Commission approves a capitalization valuation for LG&E
18 in this case that exceeds the value of its rate base, LG&E should not earn a return on the
19 portion of the capitalization that is in excess of its rate base. In prior cases the
20 Commission has supported the capitalization methodology in circumstances where the
21 rate base exceeded the capitalization because it was inappropriate for the utility to earn a

¹⁵ Id.

¹⁶ Direct Testimony of Christopher M. Garrett, p. 6.

1 return on an inflated rate based on costs that are non-existent to the utility.¹⁷ In this case,
2 where the proposed capitalization exceeds the proposed rate base, it would not be
3 appropriate for LG&E to earn a return on a capitalization valuation that is in excess of the
4 net value of assets that are used and useful in providing electric service.

5 **Q. Based on your recommendation, what would the revenue requirement impact be?**

6 A. LG&E's proposed capitalization exceeds its rate base by \$45.4 million. Based on
7 LG&E's proposed capitalization and rate base and proposed rate of return, my
8 recommendation would result in a revenue requirement reduction of \$4.6 million. The
9 derivation of my proposed adjustment is shown in Table JDB-1 below.

10 **Table JDB-1**

	Capitalization Valuation	Rate Base Valuation
Proposed Capitalization Allocated to Kentucky Jurisdiction	2,593,434,547	
Proposed Rate Base Allocated to Kentucky Jurisdiction		2,548,077,150
Proposed Rate of Return	7.6178%	7.6178%
Operating Income at Proposed Rate of Return	197,563,876	194,108,619
Gross Revenue Conversion Factor	1.3376	1.3376
Return Component of Revenue Requirement	264,252,451	259,630,856
Difference		(4,621,595)

11
12
13 **Q. Have you reviewed the direct testimony of Gregory W. Tillman, on behalf of**
14 **Walmart, Inc.?**

15 A. Yes, I have.

16 **Q. Do you agree with Mr. Tillman's recommendations in this case?**

17 A. Yes.

¹⁷ In the Matter of: The Application of Louisville Gas & Electric Company to adjust and to Increase its Charges for Disconnecting Service, Reconnection Service, and Returned Checks, Case No. 2000-00080, Order at 11 (Ky. PSC Sept. 27, 2000).

1 Q. Does this conclude your direct testimony?

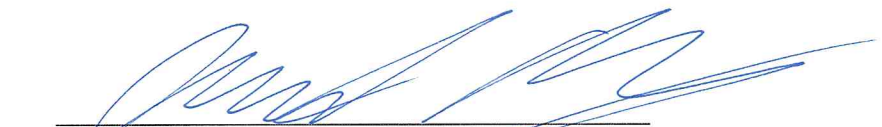
2 A. Yes, it does.

VERIFICATION

In the Matter of Electronic Application)
Of Louisville Gas and Electric Company) Case No. 2018-00295
For an Adjustment of its Electric and)
Gas Rates)

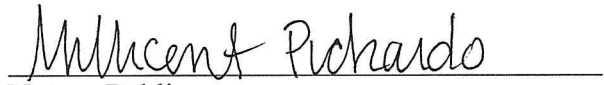
STATE OF UTAH)
COUNTY OF SALT LAKE)

The undersigned, Justin Bieber, being duly sworn, deposes and says that he is a Senior Consultant in the firm of Energy Strategies, LLC, that he has personal knowledge of the matters set forth in the foregoing testimony and exhibits, and that the answers contained therein are true and correct to the best of his information, knowledge and belief.


Justin Bieber

Subscribed and sworn to or affirmed before me this 16th day of January, 2019, by Justin Bieber.




Notary Public

CERTIFICATE OF SERVICE

I hereby certify that Walmart Inc.'s and The Kroger Company's January 16, 2019, electronic filing is a true and accurate copy of the Notice of Filing and the Direct Testimony and Exhibits of Gregory W. Tillman on behalf of Walmart Inc., and Direct Testimony of Justin Bieber on behalf of The Kroger Company to be filed in paper medium; and that on January 16, 2019, the electronic filing has been transmitted to the Commission, and that an original and six (6) 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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