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In the Matter of: APPLICATION OF KENTUCKY UTILITIES COMPANY FOR AN ADJUSTMENT OF ITS ELECTRIC RATES

CASE NO., 2018-00294

In the Matter of: APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN ADJUSTMENT OF ITS ELECTRIC AND GAS RATES

CASE NO. 2018-00295

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC. RESPONSE TO ATTORNEY GENERAL'S INITIAL DATA REQUESTS

WITNESS/RESPONDENT RESPONSIBLE: Lane Kollen Counsel

QUESTION No. 1

Reference the Direct Testimony of Mr. Lane Kollen (Kollen Direct) at pages 17-18, including his statement that "capital expenditures are incurred as the result of a budgeted process in which capital projects are identified and then prioritized based on various factors, primarily need and capital constraints." Further reference is made to page 19.

a. Other than the instance referenced on page 19, based upon Mr. Kollen's experience appearing before the Kentucky Public Service Commission, is he aware of any instances where jurisdictional utilities amended or altered their capital plans and priorities based on outcomes of regulatory proceedings, or any instances where jurisdictional utilities have indicated they will amend or alter their capital plans and priorities based on outcomes of regulatory proceedings (i.e. reduction in revenue requirement requests, denial of CPCNs, etc.)?

RESPONSE:

Yes. In Case No. 2018-00261, Duke added \$1.065 million in proforma expense to its budget O&M expense in the test year for incremental expenses that it identified. Duke claimed that the additional expenses were necessary in order for it to comply with various regulations. Duke and the AG entered into a settlement in that proceeding wherein the proforma expense was reduced by 50%. Duke filed testimony in support of the settlement asserting that this specific provision of the settlement was reasonable because it could and would spend less in the test year to comply with these programs to match the recovery authorized.

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WITNESS/RESPONDENT RESPONSIBLE: Lane Kollen Counsel

QUESTION No. 2

Reference Kollen Direct, page 27, lines 24–26, wherein he discusses the Phoenix Paper Wickliffe new load. Provide the source and/or calculation for the additional revenues of \$7.62 million included in the Phoenix revenues adjustment.

RESPONSE:

See attached workpaper file in native Excel format inadvertently excluded from the other workpapers filed contemporaneously with Mr. Kollen's Direct Testimony.

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WITNESS/RESPONDENT RESPONSIBLE: Stephen J. Baron Counsel

QUESTION No. 3

Reference the Direct Testimony of Mr. Stephen J. Baron (Baron Direct) generally, including his critique of Mr. Seelye's Loss of Load Probability (LOLP) method.

- a. Does Mr. Baron 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. Baron 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. Mr. Baron has not performed a detailed comparison of Mr. Seelye's LOLP method to the LOLP methodology described in the NARUC manual. However, it appears that the example of how costs are allocated to rate classes described in the NARUC manual is different than the methodology used by Mr. Seelye. The NARUC manual basically states that "appropriate allocation factors" should be used to allocate rating period costs (peak, intermediate, base) to rate classes.
- b. No. As discussed in Mr. Baron's testimony, he does not support the use of Mr. Seelye's LOLP production demand allocation methodology to allocate costs in these LG&E and KU rate cases.

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WITNESS/RESPONDENT RESPONSIBLE: Stephen J. Baron Counsel

QUESTION No. 4

Reference Baron Direct at 10, lines 9-10, wherein he mentions factors regulators may consider in allocating revenue, such as "competitive issues and the impact on economic development."

- a. Explain what Mr. Baron means by "competitive issues and the impact on economic development."
- b. Explain, in complete detail, if "competitive issues and the impact on economic development" are items regulators, including the Kentucky Public Service Commission, can consider in setting rates.

RESPONSE:

- a. Mr. Baron fully discusses at pages 20 to 24 of his testimony the importance of considering competitive and economic development issues as part of ratemaking and, in particular, the allocation of revenue increases to rate classes. As he discusses, for large manufacturing customers, who face national and international competition for their products, electric prices have a significant impact on the decisions to operate existing facilities, expansion and potentially contraction. All of these decisions impact employment by these large manufacturing companies. The important relationship between competitive electric prices for industrial manufacturers and economic prosperity has been repeatedly recognized by Kentucky state government. Also, a vibrant industrial manufacturing economy benefits residential customers and the commercial establishments that service them.
- b. As discussed by Mr. Baron on pages 20 to 24 of his testimony, as well as in the testimony of Companies' witness Seelye and Conroy, competitive issues that impact economic development in Kentucky, and employment, are important and relevant issues to consider in the Commission's determination of fair, just and reasonable rates. This is especially true in a jurisdiction like Kentucky given its large industrial manufacturing sector. Issues such as gradualism are also appropriate factors to consider, in addition to class cost of service results.

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WITNESS/RESPONDENT RESPONSIBLE: Stephen J. Baron Counsel

QUESTION No. 5

Reference Baron Direct, wherein Mr. Baron discusses the 12 CP cost study he conducted.

a. From what data set did Mr. Baron ascertain his 12 peaks?

RESPONSE:

a. Mr. Baron used the Companies' projected test year, hourly data, produced by the Companies' in response to AG-1-KU-137b, which contains both the KU and LGE hourly test year loads.