COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF LOUISVILLE	)	
GAS AND ELECTRIC COMPANY FOR RENEWAL	)	**CASE NO.**
AND PROPOSED MODIFICATION OF ITS	)	**2019-00437**
PERFORMANCE-BASED RATEMAKING	)	
MECHANISM	)	

RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
TO
ATTORNEY GENERAL'S SUPPLEMENTAL DATA REQUESTS
DATED MARCH 4, 2020

FILED: MARCH 20, 2020

VERIFICATION

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF JEFFERSON)

The undersigned, **J. Clay Murphy**, being duly sworn, deposes and says that he is Director – Gas Management Planning, and Supply for Louisville Gas and Electric Company, 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.

J. Clay Murphy
J. Clay Murphy

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 20th day of March 2020.

Notary Public

Notary Public, ID No. 603967

My Commission Expires:

7/11/2022

VERIFICATION

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF JEFFERSON)

The undersigned, **Pamela L. Jaynes**, being duly sworn, deposes and says that she is Manager - Gas Supply for Louisville Gas and Electric Company, and that she has personal knowledge of the matters set forth in the responses for which she is identified as the witness, and the answers contained therein are true and correct to the best of her information, knowledge and belief.

Pamela L. Jaynes

Pamela L. Jaynes

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 10th day of March 2020.

Judy Schooler

Notary Public

Notary Public, ID No. 603967

My Commission Expires:

7/11/2022

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to Attorney General's Supplemental Data Requests
Dated March 4, 2020

Case No. 2019-00437

Question No. 1

Witness: J. Clay Murphy / Pamela L. Jaynes

Q-1. Reference the Company's responses to AG DR 1-5.

a. Explain whether the Company has considered obtaining additional pricing locations.

b. Provide a discussion on the costs that might be expected in procuring additional pipeline capacity with firm receipt point entitlements for transportation to LG&E's city gate.

c. If the Company has conducted any cost-benefit analyses on procuring additional capacity, as discussed in subpart b., above, provide copies.

d. If the Company is aware of the pricing locations that Atmos Energy Corporation and Columbia Gas of Kentucky, Inc. utilize, and if that data is publicly accessible, provide that.

A-1. a. Over time, LG&E has obtained additional pricing locations. Prior to 1996, LG&E was served solely by Texas Gas Transmission, LLC ("Texas Gas"). At that time, LG&E was only able to secure gas from Texas Gas's Zone SL and Zone 1. Beginning November 1, 1996, LG&E began receiving service from Tennessee Gas Pipeline Company, LLC ("Tennessee"). This change allowed LG&E to secure additional pricing locations in Tennessee's Zone 0 and Zone 1. As supplies from Tennessee's Zone 1 became uneconomic, LG&E de-contracted for this pipeline capacity originating in this pricing location in 2012. More recently, beginning in 2016, LG&E added a new pricing location at Texas Gas Zone 4 (Lebanon) when it participated in Texas Gas's Ohio-Louisiana ("OHLA") Open Season for pipeline capacity from that location. From this pricing location, LG&E is able to obtain gas supplies from the Marcellus and Utica shale production regions.

Importantly, LG&E was able to make pricing location adjustments over time because it was able to make adjustments in its pipeline capacity contract portfolio as these contracts came up for renewal or termination. This process enabled LG&E to gain access to different pricing locations while at the same time ensuring that LG&E did not

(and does not) have pipeline capacity in excess of its needs to serve firm retail requirements.

Furthermore, as LG&E explained in its response to AG Question No. 1-5, "[a]ccess to purchase locations is generally dependent upon having available pipeline capacity that connects to gas supplies originating in those locations to the LDC's citygate." Only Texas Gas and Tennessee are in LG&E's immediate physical vicinity.

b. LG&E has not contemplated procuring additional firm pipeline capacity in excess of its needs to serve firm retail gas loads. An important part of LG&E's planning process is designed to ensure that it does not have excess pipeline capacity beyond what is required to serve retail gas loads under design conditions.

   For example, LG&E does not currently have a pricing location in Tennessee's Zone 1. If LG&E contracted for annual firm capacity under Rate FT-A with Tennessee in the amount of 10,000 MMBtu/day, the annual capacity cost at current tariff rates (including applicable surcharges) for deliveries from Tennessee's Zone 1 to LG&E's citygate located in Tennessee's Zone 2 would be $1,146,492 ($9.5541/MMBtu/month x 10,000 MMBtu/day/month x 12 months). Based on historical gas commodity prices, gas supplies originating in this pricing location would be higher than LG&E's other available pricing locations on Texas and Tennessee.

c. See LG&E's response to part (b).

d. LG&E is not aware of the pricing locations that might be used by either Atmos Energy Corporation or Columbia Gas of Kentucky. Presumably, any pricing locations utilized by either of these two LDCs correspond in some way to the pricing locations included in their respective PBR mechanisms and the receipt points included in their pipeline transportation contracts. Please see LG&E's response to AG Question No. 1-3.

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to Attorney General's Supplemental Data Requests
Dated March 4, 2020

Case No. 2019-00437

Question No. 2

Witness: J. Clay Murphy / Pamela L. Jaynes

Q-2. Explain whether the Company in any manner utilizes the PBR mechanism in procuring gas supply for the gas-fired electric generation units that it and Kentucky Utilities own.

a. If not, provide a discussion regarding whether the two separate gas procuring practices could and/or should be merged, and whether doing so could provide additional pricing synergies.

b. Explain whether the gas LG&E-KU currently procure for their gas-fired electric generating units is limited to four pricing points.

A-2. LG&E's gas supply cost PBR mechanism is used exclusively for the purchase of natural gas to serve the retail natural gas customers of LG&E.

a. Because natural gas markets are highly commoditized markets with transparent pricing and because the requirements to serve natural gas customers are highly inelastic, pricing synergies cannot be expected as the result of combining purchases for the LDC and gas-fired electric generation. Furthermore, separation of these functions ensures that cross-subsidies cannot and do not occur.

b. LG&E/KU purchase pipeline capacity for their gas-fired electric generation units under the name of Kentucky Utilities ("KU"). Based upon publicly available data from Texas Gas's "Index of Customers" dated January 2, 2020, KU currently contracts for firm pipeline capacity under Texas Gas's Rate SNS and Rate WNS (which firm pipeline services are designed to serve electric generation facilities located on Texas Gas's system) with firm receipts in Texas Gas's Zone SL. KU does not hold firm capacity on other interstate pipelines.

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to Attorney General's Supplemental Data Requests
Dated March 4, 2020

Case No. 2019-00437

Question No. 3

Witness: J. Clay Murphy / Pamela L. Jaynes

Q-3. Reference the response to PSC 1-20, in which the Company stated that it does not separately track costs associated with its PBR-related activities. In the event the Commission approves the Company's application, explain whether it would be willing to begin tracking those costs. If not, explain fully why not.

A-3. LG&E would be willing, but is unable, to separately track costs associated with its PBR-related activities. This is the case because LG&E's gas supply cost PBR mechanism acts as an incentive mechanism. It does not change <u>what</u> LG&E does in terms of activities related to gas supply procurement; it changes <u>how</u> LG&E procures and manages its gas supply and pipeline transportation portfolio. A well-constructed PBR mechanism incents and rewards the LDC for the risks it undertakes to optimize its gas supply and pipeline transportation portfolio. The PBR mechanism is not a compensatory mechanism designed to recover PBR-related activity costs. See also the response to PSC Question 2-10.