

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

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IN THE MATTER OF KENTUCKY UTILITIES )  
COMPANY FOR AN ADJUSTMENT TO ITS )  
ELECTRIC RATES, A CERTIFICATE OF )  
PUBLIC CONVENIENCE AND NECESSITY TO )  
DEPLOY ADVANCED METERING )  
INFRASTRUCTURE, APPROVAL OF CERTAIN )  
REGULATORY AND ACCOUNTING )  
TREATMENTS, AND ESTABLISHMENT OF A )  
ONE-YEAR SURCHARGE )

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Case No. 2020-00349

IN THE MATTER OF LOUISVILLE GAS AND )  
ELECTRIC COMPANY FOR AN ADJUSTMENT )  
TO ITS ELECTRIC AND GAS RATES, A )  
CERTIFICATE OF PUBLIC CONVENIENCE AND )  
NECESSITY TO DEPLOY ADVANCED )  
METERING INFRASTRUCTURE, APPROVAL OF )  
CERTAIN REGULATORY AND ACCOUNTING )  
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Case No. 2020-00350

**THE UNITED STATES DEPARTMENT OF DEFENSE**  
**AND ALL OTHER FEDERAL EXECUTIVE AGENCIES' RESPONSES**  
**TO JOINT DATA REQUESTS OF KENTUCKY UTILITIES COMPANY AND**  
**LOUISVILLE GAS AND ELECTRIC COMPANY**

**Data Request No. 1: (#2020-00349 only)**

Provide copies of all electronic files in native format with formulas intact used in your analysis. This includes copies of all workpapers supporting your testimony, analyses, and conclusions.

**Responsible Witness: Brian C. Andrews**

**Response:**

Please see the attached zipfile, titled "BCA Workpapers.zip" which supports Mr. Andrews' testimony, analyses, and conclusions.

**Data Request No. 2: (#2020-00349 only)**

Please refer to the analysis in Mr. Andrews' Exhibit BCA-1 and confirm the only difference between the "As Filed by Company-Exhibit LEB-2 Table 7" section of Exhibit BCA-1 and the "Adjusted Analysis to Include Depreciation Expense Change" is the revenue requirement impact from the change to depreciation expense that would occur between 2021 and 2034 if KU's proposed depreciation rates are approved in this rate case.

**Responsible Witness: Brian C. Andrews**

**Response:**

Confirmed.

**Data Request No. 3:**

Provide copies of all electronic files in native format with formulas intact used in your analysis, including complete copies of and workpapers for all cost of service studies performed. This includes copies of all workpapers supporting your testimony, analyses, and conclusions.

**Responsible Witness: Michael P. Gorman**

**Response:**

See Mr. Gorman's workpapers:

- MPG Public Workpaper Index.xlsx
- MPG Public WP 1.xlsx
- MPG Public WP 2.xlsx
- MPG Public WP 3.xlsx
- MPG Public WP 4.xlsx
- MPG Public WP 5.xlsx
- MPG Public WP 6.xlsx
- MPG Public WP 7.xlsx
- MPG Public WP 8.xlsx
- MPG Public WP 9.xlsx
- MPG Public WP 10.xlsx

**Data Request No. 4:**

Provide copies of all electronic files in native format with formulas intact used in your analysis. This includes copies of all workpapers supporting your testimony, analyses, and conclusions.

**Responsible Witness: Christopher C. Walters**

**Response:**

Please see the attachments provided in response to Staff-DOD/FEA Set 1, Data Request No. 1.

**Data Request No. 5:**

At page 25, lines 8-9, Mr. Walters indicates that he has taken into consideration the company's requested common equity ratio of 53.1% in developing his recommended range and return. Please explain how Mr. Walters took this into consideration, and what impact this had on his recommended ROE range and point estimate ROE recommendation.

**Responsible Witness: Christopher C. Walters**

**Response:**

Please see page 26 line 8 through page 27 line 4 of Mr. Walters' direct testimony. No specific adjustment was made to account for the Companies' lower relative risk to that of the proxy group.

**Data Request No. 6:**

At page 11, lines 3-5, Mr. Walters states, "Robust valuations are an indication that utilities can sell securities at high prices, which is a strong indication that they can access equity capital under reasonable terms and conditions, and at relatively low cost."

- a. Please define the term "high prices," as used by Mr. Walters, including the relative benchmark used to determine they are "high."
- b. Is it Mr. Walters' position that rising or "high" stock prices are indicative of a "low cost" of equity? Please provide a complete explanation for your response, including copies of all documentation used to support your response.
- c. Does Mr. Walters believe that it is possible for stock prices and the cost of equity to increase simultaneously? If the answer is anything other than an unqualified "yes," please provide a complete explanation and copies of all documentation used to support your response.

**Responsible Witness: Christopher C. Walters**

**Response:**

- a. Higher prices in the context of this testimony relate to the recent valuation of utility stocks based on average multiples such as the price-to-earnings ratio relative to historical and longer-term average multiples. Higher multiples relative to previous observations and averages indicate that investors are willing to pay a higher price per dollar of earnings per share. Please see the valuation metrics presented in Exhibit CCW-2.
- b. Please see response to part (a) above.
- c. The cost of equity is an unobservable, yet fluid measure. It is possible that risks increase at the same time prices are increasing, which could potentially increase the cost of equity. Similarly, it's possible that risks decrease during a period of declining prices or valuation multiples, indicating a decrease in the cost of equity. However, prices are an immediately observable value that indicates that investors are willing to accept a lower equity return for the future earnings and dividends of the stock investment.

**Data Request No. 7:**

Is Mr. Walters aware of any investment analyst reports that advise investors to consider growth in GDP as a ceiling on the long-run growth rate for an electric utility stock? If so, please provide copies of all such reports.

**Responsible Witness: Christopher C. Walters**

**Response:**

Analyst reports generally offer growth rate outlooks for the short-term and intermediate-term (3-5 years), so they do not comment on long-term sustainable growth. Using such growth rates in a model that assumes perpetuity is bound by the economic reality that they cannot exceed economic growth over the long term. In the long-run, earnings growth will be limited by several factors, including, but not limited to, competition and market saturation. Similarly, dividends are capped by earnings growth in the long-run.

As the CFA Institute has stated (see Confidential Attachment 7a):

For earnings growth to exceed GDP growth, the ratio of corporate profits to GDP must trend upward over time. It should be clear that the share of profits in GDP cannot rise forever. At some point, stagnant labor income would make workers unwilling to work and would also undermine demand,

making further profit growth unsustainable. Thus, in the long run, real earnings growth cannot exceed the growth rate of potential GDP.

Also, Dr. Morin states the following in his book, “New Regulatory Finance” (see Confidential Attachment 7b):

“It is useful to remember that eventually all company growth rates, especially utility services growth rates, converge to a level consistent with the growth rate of the aggregate economy.”

Further, Dr. Morin continues to state (see Confidential Attachment 7b):

“[...] it is quite possible that a company’s dividends can grow faster than the general economy for five years, but it is quite implausible for such growth to continue into perpetuity.”

Additionally, please refer to the discussion of the multi-stage DCF in Mr. Walters’ testimony.

**Data Request No. 8:**

Please provide source documents supporting the beta value of 0.66 cited at page 50 of Mr. Walters’ testimony, along with copies of source documents detailing the methodology used to calculate this value.

**Responsible Witness: Christopher C. Walters**

**Response:**

It is unclear which beta estimate of 0.66 is being referred to on page 50 of the testimony. Please see the attachments provided in response to Staff-DOD/FEA Set 1, Data Request No. 1. Specifically, please see the file titled “Exhibits CCW-3 - CCW-10 and CCW-16 - CCW-17.xlsm” as well as the file titled “CCW Confidential WP 29.xlsm”.

**Data Request No. 9:**

Please provide a complete copy of the documents referenced in the footnotes to Table 10 to Mr. Walters’ testimony.

**Responsible Witness: Christopher C. Walters**

**Response:**

Please see the attachments provided in response to Staff-DOD/FEA Set 1, Data Request No. 1. Specifically, please see the files labeled “CCW Public WP 7.xlsx”, “CCW Public WP 8.pdf”, “CCW Public WP 9.pdf”, and “CCW Public WP 10.pdf”.

**Data Request No. 10:**

Please provide a complete copy of the document referenced in footnote 30 to Mr. Walters’ testimony.

**Responsible Witness: Christopher C. Walters**

**Response:**

Please see the attachments provided in response to Staff-DOD/FEA Set 1, Data Request No. 1. Specifically, please see the file labeled “CCW Confidential WP 17.pdf”.

**Data Request No. 11:**

Please provide a complete copy of the document referenced in footnote 32 to Mr. Walters’ testimony.

**Responsible Witness: Christopher C. Walters**

**Response:**

Please see the attachments provided in response to Staff-DOD/FEA Set 1, Data Request No. 1. Specifically, please see the file labeled “CCW Confidential WP 21.pdf”.

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Case No. 2020-00350

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STATE OF MISSOURI )  
COUNTY OF ST. LOUIS )       SS


**VERIFICATION OF BRIAN C. ANDREWS**

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



Brian C. Andrews

Subscribed and sworn to before me, a Notary Public in said County and State, this 1st day of April, 2021.

  
Notary Public

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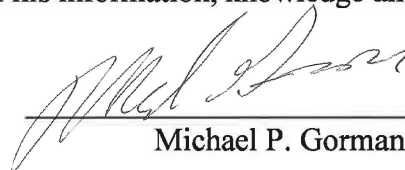
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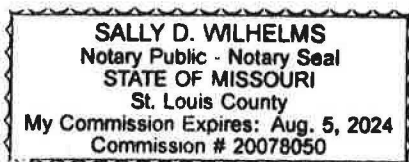
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**STATE OF MISSOURI** )  
**COUNTY OF ST. LOUIS** )      **SS**


**VERIFICATION OF MICHAEL P. GORMAN**

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

  
\_\_\_\_\_  
Michael P. Gorman

Subscribed and sworn to before me, a Notary Public in said County and State, this 1st day of April, 2021.



  
\_\_\_\_\_  
Notary Public



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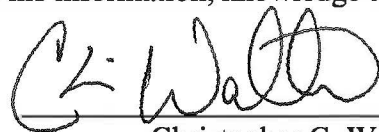
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**STATE OF MISSOURI** )  
**COUNTY OF ST. LOUIS** )      **SS**

**VERIFICATION OF CHRISTOPHER C. WALTERS**

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

  
\_\_\_\_\_  
Christopher C. Walters

Subscribed and sworn to before me, a Notary Public in said County and State, this 1st day of April, 2021.

  
\_\_\_\_\_  
Notary Public

