COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matters of:

ELECTRONIC APPLICATION OF KENTUCKY UTILITIES CO. FOR AN ADJUSTMENT OF 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 SURCREDIT	)	CASE No. 2020-00349

-and-

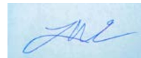
ELECTRONIC APPLICATION OF LOUISVILLE GAS & ELECTRIC CO. FOR AN ADJUSTMENT OF ITS ELECTRIC AND GAS RATES, A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY TO DEPLOY ADVANCED METERING INFRASTRUCTURE, APPROVAL OF CERTAIN REGULATORY AND ACCOUNTING TREATMENTS, AND ESTABLISHMENT OF A ONE-YEAR SURCREDIT	)	CASE No. 2020-00350

JOINT RESPONSES OF THE ATTORNEY GENERAL AND KIUC TO DATA REQUESTS OF THE KENTUCKY PUBLIC SERVICE COMMISSION STAFF

The intervenors, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"), and the Kentucky Industrial Utility Customers, Inc. ("KIUC") submit the following responses to data requests of the Kentucky Public Service Commission Staff in the above-styled matters.

Respectfully submitted,

DANIEL CAMERON
ATTORNEY GENERAL



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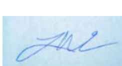
Certificate of Service and Filing

Pursuant to the Commission's Orders in Case No. 2020-00085, and in accord with all other applicable law, Counsel certifies that an electronic copy of the forgoing was served and filed by e-mail to the parties of record. Further, counsel for OAG will submit the paper originals of the foregoing to the Commission within 30 days after the Governor lifts the current state of emergency. Counsel further certifies that the responses set forth herein are true and accurate to the best of their knowledge, information, and belief formed after a reasonable inquiry.

This 1st day of April, 2021



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Assistant Attorney General

AFFIDAVIT

STATE OF GEORGIA)

COUNTY OF FULTON)

STEPHEN J. BARON, being duly sworn, deposes and states: that the attached is his sworn testimony and that the statements contained are true and correct to the best of his knowledge, information and belief.

Stephen J. Baron

Stephen J. Baron

Sworn to and subscribed before me on this 1st day of April 2021.

Jessica K. Inman

Notary Public

JESSICA K INMAN
MY COMMISSION EXPIRES
NOTARY
PUBLIC
JULY 31, 2023
CHEROKEE COUNTY, GEORGIA

AFFIDAVIT

STATE OF GEORGIA)

COUNTY OF FULTON)

RICHARD A. BAUDINO, being duly sworn, deposes and states: that the attached is his sworn testimony and that the statements contained are true and correct to the best of his knowledge, information and belief.

Richard A. Baudino

Richard A. Baudino

Sworn to and subscribed before me on this 1st day of April 2021.

Jessica K. In

Notary Public

JESSICA K INMAN
MY COMMISSION EXPIRES
NOTARY
PUBLIC
JULY 31, 2023
CHEROKEE COUNTY, GEORGIA

AFFIDAVIT

STATE OF GEORGIA)

COUNTY OF FULTON)

LANE KOLLEN, being duly sworn, deposes and states: that the attached is his sworn testimony and that the statements contained are true and correct to the best of his knowledge, information and belief.

Lane Kollen

Sworn to and subscribed before me on this
1st day of April 2021.

Jessica K. Inman

Notary Public

JESSICA K INMAN
MY COMMISSION EXPIRES
NOTARY PUBLIC
JULY 31, 2023
CHEROKEE COUNTY, GEORGIA

WITNESS / RESPONDENT RESPONSIBLE:
STEPHEN J. BARON

QUESTION No. 1
Page 1 of 1

Refer to the Direct Testimony of Stephen J. Baron (Baron Testimony), page 30. Provide the rates for all customer classes that would result from the proposed allocations in Table 3, assuming that the entire amount of Louisville Gas and Electric Company's (LG&E) proposed electric rate increase were approved by the Commission. Provide this in Excel spreadsheet format with all with all formulas, columns, and rows unprotected and fully accessible.

RESPONSE: [1]

Mr. Baron has not performed the requested analysis. While the rate design for each rate class to reflect Mr. Baron's proposed revenue increases could be performed in a number of ways, Mr. Baron would normally adjust all Company proposed charges except the basic service charge by an equal percentage change to produce the revenues recommended by Mr. Baron, assuming that the Company receives 100% of its requested revenue increase.

[1] NOTE: Although Commission Staff directed this question jointly to the AG and KIUC, Mr. Baron's response to this question is being sponsored solely by KIUC.

WITNESS / RESPONDENT RESPONSIBLE:
STEPHEN J. BARON

QUESTION No. 2
Page 1 of 1

Refer to the Baron Testimony, page 31. Provide the rates for all customer classes that would result from the proposed allocations in Table 4, assuming that the entire amount of Kentucky Utilities Company (KU) proposed electric rate increase were approved by the Commission. Provide this in Excel spreadsheet format with all with all formulas, columns, and rows unprotected and fully accessible.

RESPONSE: [2]

Mr. Baron has not performed the requested analysis. While the rate design for each rate class to reflect Mr. Baron's proposed revenue increases could be performed in a number of ways, Mr. Baron would normally adjust all Company proposed charges except the basic service charge by an equal percentage change to produce the revenues recommended by Mr. Baron, assuming that the Company receives 100% of its requested revenue increase.

[2] NOTE: Although Commission Staff directed this question jointly to the AG and KIUC, Mr. Baron's response to this question is being sponsored solely by KIUC.

WITNESS / RESPONDENT RESPONSIBLE:
STEPHEN J. BARON

QUESTION No. 3
Page 1 of 1

Refer to the Baron Testimony, page 40.

a. Provide revised Tables 5 and 6 based upon Mr. Baron's proposal to maintain the current TODP and RTS energy charges. This revised table should include proposed increased to the Base, Intermediate, and Peak demand charges. Provide this in Excel spreadsheet format with all with all formulas, columns, and rows unprotected and fully accessible.
b. Explain whether placing the entire increase to the demand charge disregards gradualism.

RESPONSE:[3]

a. See attached. Note that Mr. Baron has applied all of the increase required as a result of maintaining the energy charges at the current level to the Intermediate and Peak demand charges. While this increase could have been uniformly applied to all three demand charges, given the large increase that the Companies are already proposing for the Base demand charges, Mr. Baron did not increase the Base demand charges beyond the level proposed by the Companies in their filing.
b. Mr. Baron does not believe that his proposal results in any violation of the regulatory principle of gradualism. As he showed in his testimony, the Companies' proposed TODP and RTS energy charges are significantly above cost and therefore produced price signals that are uneconomic. By holding the energy charges at current levels, rather than reducing them, Mr. Baron has reflected gradualism in his proposal.

[3] NOTE: Although Commission Staff directed this question jointly to the AG and KIUC, Mr. Baron's response to this question is being sponsored solely by KIUC.

Proposed TODP Increases

LG&E	Current	Proposed	% Change
Energy Charge	$ 0.02744	$ 0.02744	0.0%
Demand kVA Base	$ 2.34	$ 3.33	42.3%
Demand kVA Intermediate	$ 7.15	$ 8.34	16.6%
Demand kVA Peak	$ 9.32	$ 10.85	16.4%
KU			
Energy Charge	0.02573	0.02573	0.0%
Demand kVA Base	$ 2.03	$ 2.79	37.4%
Demand kVA Intermediate	$ 6.84	$ 7.86	14.9%
Demand kVA Peak	$ 8.52	$ 9.80	15.0%

Proposed RTS Increases

LG&E	Current	Proposed	% Change
Energy Charge	$ 0.02705	$ 0.02705	0.0%
Demand kVA Base	$ 0.90	$ 1.93	114.4%
Demand kVA Intermediate	$ 7.11	$ 8.30	16.7%
Demand kVA Peak	$ 9.27	$ 10.82	16.7%
KU			
Energy Charge	$ 0.02513	$ 0.02513	0.0%
Demand kVA Base	$ 1.23000	$ 2.16000	75.6%
Demand kVA Intermediate	$ 6.74000	$ 7.65000	13.5%
Demand kVA Peak	$ 8.39000	$ 9.53000	13.6%

WITNESS / RESPONDENT RESPONSIBLE:
STEPHEN J. BARON

QUESTION No. 4
Page 1 of 1

Refer to the Baron Testimony, page 45, lines 6–8, which states that customers receiving a discount on a portion of their bills via an economic incentive discount would also receive a credit for the Economic Relief Surcredit. Confirm that this is referring to customers taking service under the Economic Development Rider.

RESPONSE: [4]

Confirmed.

[4] NOTE: Although Commission Staff directed this question jointly to the AG and KIUC, Mr. Baron's response to this question is being sponsored solely by KIUC.

WITNESS / RESPONDENT RESPONSIBLE:
STEPHEN J. BARON

QUESTION No. 5
Page 1 of 1

Refer to the Baron Testimony, page 48, line 20, through page 49, line 12, which discusses a recent revision to 807 KAR 5:056 regarding coal severance taxes. As the Commission has recently proposed to revise 807 KAR 5:056, Section 5 to remove the special provisions regarding coal severance taxes, explain if that would change any of Mr. Baron's testimony if it were to be codified.

RESPONSE: [5]

Mr. Baron would not change his recommendation. The cited reference to severance taxes was to make the point that there is an additional cost to Kentucky coal mines associated with the severance tax. All else being equal, this increases the cost of production to Kentucky coal mines, relative to other coal mines located in other states that do not have such a tax. Mr. Baron's proposed Coal Mine Economic Development Rate would permit utilities to negotiate a special pricing arrangement with a coal mine associated with incremental usage. Any resulting contract would be present to the Commission for evaluation and approval.

[5] NOTE: Although Commission Staff directed this question jointly to the AG and KIUC, Mr. Baron's response to this question is being sponsored solely by KIUC.

WITNESS / RESPONDENT RESPONSIBLE:
STEPHEN J. BARON

QUESTION No. 6
Page 1 of 2

Refer to the Baron Testimony, Exhibit SJB-7, Proposed Coal Mine Economic Development Rate.

a. Explain whether it would be reasonable for this Commission, if it were to approve the Coal Mine Economic Development Rate, to impose conditions such as those set forth in Administrative Case No. 327.[6]
b. Explain whether it would be reasonable for this Commission, if it were to approve the Coal Mine Economic Development Rate, to approve it temporarily with the option to extend the expiration date upon a filing from LG&E and KU requesting an extension.
c. If the Commission were to approve the Coal Mine Economic Development Rate, explain whether LG&E and KU should be able to recover any financial loss in connection with the proposed rate. If so, explain how the financial loss should be recovered. If not, explain.
d. Explain whether Mr. Baron believes coal production is more of a result of the market forces of supply and demand or energy costs.
e. Explain whether the proposed Coal Mine Economic Development Rate will cause inter-class subsidies.
f. Explain whether the proposed Coal Mine Economic Development Rate will cause intra-class subsidies.
g. Provide a chart listing the rates of River View Coal, LLC's competitors in Kentucky and the surrounding states.

RESPONSE: [7]

a. Yes, it would be reasonable for the Commission to impose conditions. However, since the Coal Mine Economic Development Rate only authorizes utilities to negotiate a special pricing arrangement with a coal mine associated with incremental usage, any resulting contract would be presented to the Commission for evaluation and approval, including consideration of any additional conditions. Since the proposed rate only provides for a discount associated with incremental energy usage, Mr. Baron does not believe that it would not create cost shifting issues. Finally, because the proposed Coal Mine Economic Development Rate only authorizes negotiation and not

[6] Administrative Case No. 327, *An Investigation Into the Implementation of Economic Development Rates by Electric and Gas Utilities* (Ky. PSC Sept. 24, 1990).
[7] NOTE: Although Commission Staff directed this question jointly to the AG and KIUC, Mr. Baron's response to this question is being sponsored solely by KIUC.

a specific rate or discount, the proposal would not require conditions that might otherwise be associated with a tariff of general applicability.

b. Yes. That would be reasonable if the Commission determines that such a policy is appropriate. Again, since the Commission would have to approve any agreement between the utility and the coal mine, such provisions could be addressed at that time.
c. Because the proposed Coal Mine Economic Development Rate provides for a negotiation of a special rate associated with incremental energy usage, it is not expected that there would be any financial loss to the Company. The assumption underlying the proposal is that the incremental usage would not occur, but for the discount. Mr. Baron anticipates that the coal mine customer would have to demonstrate to the Commission that the discounted energy use is truly incremental. It is important to note that the timing during which the Commission would approve such an agreement could be very important so that a business opportunity available for increased production by the coal mine is not lost.
d. Yes, Mr. Baron agrees that market forces of supply and demand ultimately determine coal production. While the Commission cannot change these market forces, the Commission, through its ratemaking process can impact the competitive environment in which coal mines in Kentucky operate.
e. Mr. Baron does not believe that the proposal will create inter-class subsidies. As discussed in response to Part (c) above, the discount is associated with incremental usage. As such, it does not impose additional demand costs to the system.
f. Mr. Baron does not believe that the proposal will create intra-class subsidies. As discussed in response to Part (c) above, the discount is associated with incremental usage. As such, it does not impose additional demand costs to the system.
g. See response to PSC Staff's data requests to Alliance Coal LLC, Item no. 6.

WITNESS / RESPONDENT RESPONSIBLE:
STEPHEN J. BARON

QUESTION No. 7
Page 1 of 1

Explain whether Mr. Baron agrees or disagrees whether the Probability of Dispatch COSS is a more reasonable approach to measuring cost of service as compared to the 6 CP COSS.

RESPONSE: [8]

Mr. Baron disagrees strongly with the use of a Probability of Dispatch COSS methodology and does not believe that it is a reasonable to measure cost of service. It is premised on an assumption that fixed demand related costs associated with generating units are caused by customer usage in each hour during which such units are dispatched. Unlike even the Companies' LOLP method, the Probability of Dispatch COSS methodology disregards reliability and customer kW demands in the assignment of cost responsibility. The Probability of Dispatch COSS methodology produces price signals that discourage off-peak energy usage by customers, particularly high load factor industrial customers. As Mr. Baron discusses in his testimony, he believes that the 6 CP COSS is a reasonable methodology for the Companies in this case.

[8] NOTE: Although Commission Staff directed this question jointly to the AG and KIUC, Mr. Baron's response to this question is being sponsored solely by KIUC.

WITNESS / RESPONDENT RESPONSIBLE:
STEPHEN J. BARON

QUESTION No. 8
Page 1 of 1

Explain whether Mr. Baron agrees or disagrees whether the Base, Intermediate, Peak COSS is a more reasonable approach to measuring cost of service as compared to the 6 CP COSS.

RESPONSE:[9]

As Mr. Baron discussed in a number of prior LG&E and KU base rate cases, he opposes the use of the BIP methodology and does not believe that it is a reasonable approach to measure cost of service. As Mr. Baron discusses in his testimony, he believes that the 6 CP COSS is a reasonable methodology for the Companies in this case.

[9] NOTE: Although Commission Staff directed this question jointly to the AG and KIUC, Mr. Baron's response to this question is being sponsored solely by KIUC.

WITNESS / RESPONDENT RESPONSIBLE:
RICHARD A. BAUDINO

QUESTION No. 9
Page 1 of 2

Refer to the Direct Testimony of Richard A. Baudino (Baudino Testimony) generally. There have been recent ROE awards to electric utilities with transmission and distribution assets only that have been below 9.0 percent.

a. Everything else being equal, explain generally whether wires only utilities are less risky than vertically integrated electric utilities that own and operate generation facilities. If so, explain the risk factors associated with the ownership and operation of generation facilities that enhances the utilities' risk.

b. Provide a detailed explanation of how each of the risk factors enumerated above relate specifically to LG&E and KU. Include in the response an explanation of how the well-established rate recovery mechanisms and regulatory processes fail to alleviate any additional risk such that a higher awarded ROE is warranted.

RESPONSE:

a. Everything else being equal, wires-only transmission and distribution utilities are likely less risky, and have a lowered required return on equity, than vertically integrated utilities. This is primarily due to elevated risk of owning and operating generating facilities relative to wires-only companies. Further, carbon transition risk will also tend to elevate the risk of vertically integrated electric utilities that own and operate coal plants.

b. In response to this question, Mr. Baudino refers the Staff to the credit rating agency reports that were filed in response to AG-KIUC-1, Question No. 104 in the KU and LGE dockets. The credit rating agencies provide detailed analyses of LGE's and KU's credit strengths and risks. These analyses result in the current credit ratings assigned to the companies.

   With respect to LGE, Moody's October 23, 2020 Credit Opinion noted the following credit strengths: supportive regulatory framework and stable financial profile with transparent and predictable cash flows. Credit challenges included: slightly pressured credit metrics due to the large capital investment program, high coal concentration in its generation fuel mix, and elevated carbon transition risk. Moody's noted similar credit strengths and challenges in its October 23, 2020 report on KU. As part of the supportive regulatory framework, the Moody's reports cited the KPSC's approval of the fuel adjustment clause, the Environmental Cost Recovery Surcharge, and a demand-side management cost recovery mechanisms. The totality of Moody's credit analysis supported LGE/KU's A3 long-term issuer rating and stable credit outlook.

Standard and Poor's ("S&P") March 16, 2020 report on LGE noted its credit strengths as follows: vertically integrated electric and natural gas distribution utility, credit supportive and constructive regulatory environment in Kentucky, and balanced capital structure. Key risks included: geographic concentration in Louisville, Ky. and modest customer base with limited scale, negative discretionary cash flow after capital spending and dividends, and generation subject to environmental compliance rules. The S&P report on KU reported similar key strengths: fully regulated vertically integrated electric utility, supportive regulatory framework, and financial measures benefitting from timely cost recovery mechanisms. Key risks included: limited geographic diversity and small customer base, moderate operational and environmental risk relating to coal fired generation, and negative discretionary cash flow, in part reflecting greater capital spending. S&P's credit evaluation for LGE and KU resulted in a stable A- issuer credit rating for the companies.

WITNESS / RESPONDENT RESPONSIBLE:
RICHARD A. BAUDINO

QUESTION No. 10
Page 1 of 1

Refer to the Baudino Testimony Provide Exhibit Nos. (RAB-2) through (RAB-6) in Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible.

RESPONSE:

Please refer to the attached spreadsheet.

WITNESS / RESPONDENT RESPONSIBLE:
RICHARD A. BAUDINO

QUESTION No. 11
Page 1 of 1

Refer to the Baudino Testimony, page 26, lines 3–4. Explain how each in the proxy group company's dividend was annualized.

RESPONSE:

Please refer to Exhibit No. __(RAB-2). The current quarterly dividend for each company was multiplied by 4 each month and divided by the average stock price, resulting in a monthly annualized dividend yield. For example, for ALLETE in September 2020, the quarterly dividend of $0.6175 was multiplied by 4 and divided by the average stock price of $52.685 to produce the dividend yield for September of 4.69%.

WITNESS / RESPONDENT RESPONSIBLE:
RICHARD A. BAUDINO

QUESTION No. 12
Page 1 of 1

Refer to the Baudino Testimony, page 28, lines 6–8. Since Yahoo! Finance did not have an estimate of ALLETE's forecasted earnings per share, explain why it wouldn't be more appropriate to simply leave that cell blank, as opposed to assuming a value.

RESPONSE:

Mr. Baudino used the consensus analysts' forecast from Zacks as a reasonable proxy for the consensus analysts' forecast from Yahoo! Finance, given that both sources compile analysts' forecasts.

WITNESS / RESPONDENT RESPONSIBLE:
RICHARD A. BAUDINO

QUESTION No. 13
Page 1 of 1

Refer to the Baudino Testimony, page 28, lines 10–13. Explain why only one half of the annual growth rate was utilized to derive the expected dividend yield and why the full annual growth rate is not a more appropriate measure.

RESPONSE:

One-half of the annual growth rate is applied to approximate the midpoint of the future year, D_1. It assumes that the growth in the dividend occurs mid-year, rather than assuming that a full year of growth should be applied to the current dividend. It also recognizes different timing of dividend increases for companies within the proxy group. It is unlikely that every company in the proxy group would have a full year of dividend growth in its current dividend. Applying the one-half year convention recognizes this.

WITNESS / RESPONDENT RESPONSIBLE:
RICHARD A. BAUDINO

QUESTION No. 14
Page 1 of 1

Refer to the Baudino Testimony, page 33, lines 3-8 and Exhibit No. (RAB4).

a. Since the Value Line projected 3-5 market return is used, and the projected 30-year bond rates are steadily increasing over the six month period, explain why it would also not be appropriate to use projected 30-year Treasury bond rates.
b. If possible, provide the projected 30-year Treasury bond rate as it was projected at the time the Value Line projected 3-5 year market return data was collected.

RESPONSE:

a. and b. Mr. Baudino does not use projected 30-Year Treasury bond rates in his Capital Asset Pricing Model analyses. However, Mr. Baudino did use a normalized long-term Treasury Bond rate from Duff and Phelps in addition to current yields. Current bond yields are more indicative of the preferences of bond investors than forecasted bond yields. Mr. Baudino does not have a projected 30-year Treasury Bond yield that was projected at the time the Value Line projected 3-5 year market return was obtained from Value Line.

WITNESS / RESPONDENT RESPONSIBLE:
RICHARD A. BAUDINO

QUESTION No. 15
Page 1 of 1

Refer to the Baudino Testimony, page 41, lines 5–7. Mr. Baudino states that the average utility bond yield ranges from 2.76 percent to 3.59 percent in 2021.

a. Confirm that the period Mr. Baudino is referencing is 2020.
b. Provide the monthly utility bond yields for 2020 to date.

RESPONSE:

a. Confirmed.
b. The monthly average utility bond yields from the Mergent Bond Record that Mr. Baudino incorporated in his Direct Testimony are as follows. Mr. Baudino does not have the Mergent utility bond yields for February 2021 and the March 2021 yields have not been published yet. Mr. Baudino noted in his Direct Testimony that as of February 25, 2021 the Moody's average utility bond yield was 3.39%. As of March 22, 2021 the Moody's average utility bond yield was 3.51% according to Moody's Credit Trends.

Jan-20	3.34
Feb-20	3.16
Mar-20	3.59
Apr-20	3.31
May-20	3.22
Jun-20	3.1
Jul-20	2.77
Aug-20	2.76
Sep-20	2.88
Oct-20	2.8
Nov-20	2.89
Dec-20	2.8
Jan-21	2.94

WITNESS / RESPONDENT RESPONSIBLE:
LANE KOLLEN

QUESTION No. 16
Page 1 of 1

Refer to the Kollen Testimony, pages 30–34.

a. Provide a comparative list of the advantages and disadvantages of securitization.
b. Explain why investors would engage in securitization.

RESPONSE:

a. The advantages of securitization include lower costs to customers due to lower financing costs by SPE; levelization of SPE costs to customers through multiples tenors and maturity dates; ability to delay recovery of remaining net book value and future decommissioning costs beyond the probable retirement date in order to take advantage of the lower financing costs, which is a net present value savings to customers compared to traditional utility financing; ability to ensure that the utility does not over-recover through embedded recovery in base rates; ability to recover the actual costs, including lower financing costs, through a rider, no more and no less; reduction in risk and financing requirements for the utility due to the early and complete payment of utility's remaining net book value and future decommissioning costs on the securitization closing date. Mr. Kollen is not aware of any disadavantages of securitization, assuming that it is economic.
b. Investors would purchase debt issued by the SPE due to the risk and return characteristics of the investment compared to alternative investments, the same reasons why investors purchase any financial or non-financial investments.