COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF	)	
KENTUCKY UTILITIES COMPANY FOR AN	)	
ADJUSTMENT OF ITS ELECTRIC RATES, A	)	**CASE NO. 2020-00349**
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	)	

In the Matter of:

ELECTRONIC APPLICATION OF	)	
LOUISVILLE GAS AND ELECTRIC	)	
COMPANY FOR AN ADJUSTMENT OF ITS	)	**CASE NO. 2020-00350**
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	)	

STIPULATION TESTIMONY OF KENT W. BLAKE

CHIEF FINANCIAL OFFICER
KENTUCKY UTILITIES COMPANY AND
LOUISVILLE GAS AND ELECTRIC COMPANY

FILED: APRIL 19, 2021

Q. Please state your name, position and business address.

A. My name is Kent W. Blake. I am the Chief Financial Officer of Kentucky Utilities Company ("KU") and Louisville Gas and Electric Company ("LG&E") (collectively, "Companies"), and an employee of LG&E and KU Services Company, which provides services to LG&E and KU. My business address is 220 West Main Street, Louisville, Kentucky 40202.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to discuss generally why the Stipulation and Recommendation ("Stipulation") reached by parties to these proceedings produces fair, just, and reasonable rates, terms, and conditions for all of the Companies' customers, and to recommend that the Commission approve the Stipulation. A complete copy of the Stipulation is attached to my testimony as Stipulation Testimony Exhibit KWB-1.

Overview of the Applications

Q. Will you please provide a brief review of what the Companies did not include in their applications and what they did include in their applications to mitigate the impact of the proposed changes in base rates under current conditions?

A. Yes. We hope everyone appreciates that the Companies were very thoughtful and reasoned in their filing and how it was prepared. In these cases, as discussed in my direct testimony, the Companies took several steps in the course of preparing their applications to moderate their requests and thus address the rate impact to customers. For example, the Companies chose *not* to request the increases recommended by Mr. Spanos for depreciation rates for electric and gas distribution, transmission and common plant asset classes. The Companies also used a five-year historical average

(2015-2019) of bad debt, which obviously did not include any impacts from the COVID 19 pandemic. These and the other steps described in my direct testimony reduced the Companies' filed revenue requirement increase by a total of $54.1 million.

In addition, I wish to briefly note the steps the Companies took to mitigate the change in base rates:

- The Companies delayed this filing two months from what was previously planned such that the effective date of the base rate changes will occur in July, when many believed the economy would be well on the way to rebounding.
- The Companies proposed a one-year $53.5 M Economic Relief Surcredit to temper the impact of that base rate change until the middle of 2022 when many economists were projecting a full return to a pre-COVID economy.
- The Companies proposed an innovative ratemaking position for the proposed AMI investment that will not result in an increase in customers' rates currently and, based on the Companies' current projections, will not increase the Companies' combined revenue requirement when cost recovery of that investment is ultimately sought.

Overview of Procedural Matters and Stipulation Process

Q. Please describe the procedural background and posture of these proceedings.

A. On November 25, 2020, the Companies filed with the Commission their applications in Case Nos. 2020-00349 (KU) and 2020-00350 (LG&E) for increases in base rates for their electric and gas operations, as well as for other modifications of their electric and gas rates, terms, and conditions. In addition, the Companies applied for certificates of public convenience and necessity ("CPCNs") for a full deployment of Advanced

Metering Infrastructure ("AMI") and related regulatory deferral accounting authority, as well as an accelerated return to customers of certain regulatory liabilities to offset part of the Companies' proposed rate increases during the first year new rates would be in effect.

Numerous parties petitioned the Commission for intervention in one or both proceedings. Following the submission of intervenor testimony and the Companies' rebuttal testimony, a settlement conference was held on April 15 and 16, 2021. At the settlement conference, the Companies and the following parties participated in the settlement negotiations that resulted in the Stipulation: the Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention ("AG"); United States Department of Defense and All Other Federal Executive Agencies ("DoD"); Kentuckians for the Commonwealth ("KFTC"); Kentucky Industrial Utility Customers, Inc. ("KIUC"); Kentucky Solar Energy Society ("KYSES"); Kentucky Solar Industries Association, Inc. ("KYSEIA"); The Kroger Company ("Kroger"); Lexington-Fayette Urban County Government ("LFUCG"); Louisville/Jefferson County Metro Government ("Louisville Metro"); Mountain Association ("MA"); Metropolitan Housing Coalition ("MHC"); Sierra Club; and Walmart Inc. ("Walmart"). All of the parties to these proceedings have entered into the Stipulation, and I refer to them collectively herein as the "Parties." Commission Staff also attended and was present throughout the settlement discussions on April 15th and April 16th.

Q. Are there any remarks you would like to make regarding the Parties' conduct during the negotiations that resulted in the Stipulation?

A. Yes. I would like to compliment and thank all of the Parties for their professionalism during two long days of arm's-length negotiations among parties with widely varying views and positions, particularly under the more challenging conditions presented by COVID. These are difficult and sometimes emotionally charged topics. While all participants served as vigorous advocates for the parties they represent, they also remained polite and professional throughout the negotiations. The Parties worked to mitigate the impact on customers to the extent possible, while still providing the Companies an opportunity to recover their costs of providing safe and reliable service. That approach enabled the Parties to reach a mutually beneficial outcome in complicated cases under difficult conditions, which is a remarkable achievement.

Q. Please generally describe the Stipulation proposed for the Commission's consideration.

A. Several of the Parties met in person at the offices of the Companies' counsel and other Parties participated by videoconference to engage in arm's-length negotiations on April 15 and 16, 2021, to reach the Stipulation. Commission Staff attended both in person and through videoconfernce. The Stipulation is a complete settlement of all issues in these proceedings with the explicit exception of the Companies' net metering proposals (Riders NMS-1 and NMS-2) and interconnection terms and conditions, which the Parties will continue to litigate at hearing in these cases.

The Stipulation is a reasonable compromise among the Parties with respect to the revenue requirements and specific agreements with respect to other terms, and results in fair, just, and reasonable rates, terms, and conditions for all of the Companies' customers. The Stipulation provides a transparent calculation of the revenue requirements agreed upon and recommended by the Parties in the total context of all matters addressed in the Stipulation. Because it is a settlement of issues between the Parties and not an agreement about issues on their merits, the Parties have agreed that the Stipulation should not constitute a precedent, either before the Commission or elsewhere; rather, it is the product of compromise and negotiation between the Parties' positions, all of which may reasonably be litigated in future base rate or other cases.

Four-Year Rate Case Stay-Out Commitment

Q. Please describe the Companies' four-year rate case stay-out commitment.

A. The Stipulation includes several significant items of consideration that support its reasonableness, beginning with the Companies' four-year rate case stay-out commitment. The Companies have committed in the Stipulation not to seek to have new base rates put into effect prior to July 1, 2025 (though they may file base rate applications in calendar year 2024 if the rates will not go into effect prior to July 1, 2025). This helps ensure greater rate stability for customers and, while it does present greater financial risk to the Companies, the Parties considered that fact in negotiating the stipulated return on equity.

As is customary for stay-out commitments, there are caveats to account for extraordinary or unforeseen circumstances, as well as the ordinary operation of other cost recovery mechanisms that can affect base rates. Specifically, the stay-out commitment does not preclude the Companies from seeking to defer recovery of certain kinds of costs, petitioning for emergency rate relief, continuing to have their cost-recovery surcharge mechanisms and riders operate as usual, or seeking rate relief due to statutory or regulatory changes that affect the Companies' cost recovery.

Those customary exceptions aside, the four-year base rate stay-out commitment is a significant concession that will benefit customers and could not be achieved by litigation of the issues in these cases.

<u>Revenue Requirements</u>

Q. What revenue requirement does the Stipulation establish for the Companies' electric and gas utility operations?

A. The Stipulation reduces KU's proposed revenue requirement increase by $54.0 million relative to KU's adjusted filed position,[1] for a stipulated increase of $115.9 million;[2] it reduces the proposed revenue requirement increase for LG&E's electric operations by $51.1 million relative to LG&E's adjusted filed position,[3] for a stipulated increase of $77.3 million;[4] and it reduces the proposed revenue requirement increase for LG&E's gas operations by $8.8 million relative to LG&E's adjusted filed position,[5] for a stipulated increase of $24.2 million.[6] These new revenue requirements are the result of arm's-length negotiations and represent significant changes from the positions the Parties initially took in these proceedings.[7] Though the Companies certainly filed their base rate applications with the objective of increasing their base rates to recover the calculated revenue deficiencies for their respective utility operations, considering the complexity of the issues and uncertainty in the outcome, they believe that the compromises the Parties reached on revenue requirements and all other issues in these

[1] Case No. 2020-00349, KU's Updated Response to PSC 1-56 (Feb. 26, 2021).
[2] Stipulation ¶ 2.1.
[3] Case No. 2020-00350, LG&E's Updated Response to PSC 1-56 (Feb. 26, 2021).
[4] Stipulation ¶ 2.1.
[5] Case No. 2020-00350, LG&E's Updated Response to PSC 1-56 (Feb. 26, 2021).
[6] Stipulation ¶ 3.1.
[7] *See, e.g.,* Case Nos. 2020-00349 and 2020-00350, Direct Testimony of Lane Kollen at 7.

proceedings (with the exception of the issues explicitly carved out of the Stipulation) are fair, just, and reasonable, and deserve Commission approval, particularly in light of the four-year base rate stay-out commitment.

<u>Electric Revenue Increases</u>

Q. Please summarize how the Stipulation calculates the proposed electric revenue requirement increases.

A. The Stipulation's proposed electric revenue requirement increases are calculated as shown in the table below. Please note that the calculations begin with the Companies' adjusted proposed revenue requirements and make adjustments as shown to arrive at the final stipulated increases:

Item	KU ($M)	LG&E Electric ($M)
Filed electric revenue requirement increases as adjusted[8]	169.9	128.4
9.55% return on equity	(16.7)	(11.0)
Continue to use current depreciation rates for Mill Creek Units 1 and 2 and Brown Unit 3	(33.0)	(36.5)
Updated pension and OPEB expense	(3.9)	(3.0)
Updated long-term debt rate	(0.4)	(0.6)
Electric revenue requirement increases after stipulated adjustments	115.9	77.3

Q. Please explain the "9.55% return on equity" entry in the table above.

[8] *See* KU's and LG&E's Updated Responses to PSC 1-56 dated Feb. 26, 2021; KU Schedule M-2.1; LG&E Schedule M-2.1-E. The "Filed electric revenue requirement increases as adjusted" values shown in the table result from subtracting the updated revenue requirement increase differences shown in KU's and LG&E's Updated Responses to PSC 1-56 from the unadjusted total revenue requirement increases shown in KU Schedule M-2.1 and LG&E Schedule M-2.1-E.

A. The Stipulating Parties agreed for the purposes of these base-rate proceedings that a return on equity of 9.55% is reasonable for the Companies' electric operations, and the agreed stipulated revenue requirement increases for the Companies' electric operations reflect that return on equity as applied to the Companies' capitalizations and capital structures.[9] Use of a 9.55% return on equity reduces the Companies' adjusted proposed electric revenue requirement increases by $16.7 million for KU and $11.0 million for LG&E. Supporting calculations are included in Stipulation Testimony Exhibit KWB-2.

This return on equity is consistent with the record evidence in these proceedings. For example, the Companies presented evidence supporting a recommended return on equity ("ROE") of 10.0%.[10] AG-KIUC witness Baudino provided ROE testimony recommending a 9.0% ROE.[11] The DoD provided ROE testimony supporting a 9.3% ROE.[12] The stipulated ROE fits squarely within this range of recommendations. Moreover, the record evidence also indicates the stipulated ROE is consistent with that being provided to vertically-integrated utilities according to Regulatory Research Associates, which indicated that the average award for vertically integrated utilities in 2020 was 9.55%.[13] That average award remains consistent with the most recent authorized ROE awarded to a vertically-integrated utility of 9.6%.[14]

[9] Stipulation ¶ 1.2(A).
[10] Case Nos. 2020-00349 and 2020-00350, Direct Testimony of Adrien M. McKenzie at Exhibit No. 2.
[11] Case Nos. 2020-00349 and 2020-00350, Direct Testimony of Richard A. Baudino at 3.
[12] Case Nos. 2020-00349 and 2020-00350, Direct Testimony of Christopher C. Walters at 3.
[13] Companies' Response to PSC 5-3.
[14] *Application by Duke Energy Progress, LLC, for Adjustment of Rates and Charges Applicable to Electric Utility Service in North Carolina*, Docket No. E-2, Sub 1219, Order at 91-92 (NC UC Apr. 16, 2021); *Application of Duke Energy Carolinas, LLC, for Adjustment of Rates and Charges Applicable to Electric Utility Service in North Carolina*, Docket No. E-7, Sub 1214, Order at 86-97 (NC UC Mar. 31, 2021).

Therefore, the Parties' proposed 9.55% return on equity represents a compromise from each party's litigation position but is nonetheless supported by evidence in the record of these proceedings. The Companies respectfully submit the Commission should accept it in the overall context of the Stipulation, particularly in the context of the increased risk the Companies are assuming due to their four-year base rate stay-out commitment.

Consistent with the Commission's recent precedent of awarding mechanism ROEs that are 20 basis points below awarded base rate ROEs, the Parties have also agreed that an ROE of 9.35% is appropriate for the Companies' Environmental Cost Recovery ("ECR") mechanisms.

Q. Please explain the "Continue to use current depreciation rates for Mill Creek Units 1 and 2 and Brown Unit 3" entry in the table above.

A. The stipulated electric revenue requirement increases reflect continuing to use the Companies' currently approved depreciation rates for Mill Creek Units 1 and 2 and Brown Unit 3 for ratemaking purposes rather than using the depreciation rates the Companies proposed in their Applications for those units. The Parties agree that the Commission should approve the Companies' other proposed depreciation rates as filed in the Companies' applications for ratemaking purposes. This adjustment, as well as the associated impact of these depreciation adjustments on the Companies' capitalization and the amortization of excess accumulated deferred income taxes, reduces the Companies' electric revenue requirement increases by $33.0 million for KU and $36.5 million for LG&E.[15]

[15] *See* Rebuttal Testimony of Christopher M. Garrett at Rebuttal Exhibit CMG-7.

Q. Please explain the "Updated pension and OPEB [Other Post-Employment Benefits] expense" entry in the table above.

A. The stipulated revenue requirement increases reflect using the Companies' updated 2021 pension and OPEB projections received from the Companies' actuary as the new test year estimate for purpose of calculating the revenue requirements. This adjustment reduces the Companies' proposed electric revenue requirement increases by $3.9 million for KU and $3.0 million for LG&E.[16]

Q. Please explain the "Updated long-term debt rate" entry in the table above.

A. The stipulated revenue requirement increases reflect a recommendation proposed by AG-KIUC witness Baudino, who proposed that the coupon rate for new long-term debt included in the Companies' forecasted test year should be reduced from 3.70% to 3.40%.[17] This adjustment reduces the Companies' proposed electric revenue requirement increases by $0.4 million for KU and $0.6 million for LG&E.[18]

<u>LG&E Gas Revenue Increase</u>

Q. Please summarize how the Stipulation calculates the proposed LG&E gas revenue requirement increase.

A. The Stipulation's proposed LG&E gas revenue requirement increase is calculated as shown in the table below. Please note that the calculations begin with LG&E's adjusted proposed gas revenue requirement and make adjustments as shown to arrive at the final stipulated increase:

[16] *See* Rebuttal Testimony of Daniel K. Arbough at Rebuttal Exhibit DKA-1.
[17] Direct Testimony of Richard A. Baudino at 41.
[18] Direct Testimony of Lane Kollen at 103-104.

Item	LG&E Gas ($M)
Filed gas revenue requirement increase as adjusted[19]	33.0
9.55% return on equity	(3.4)
Updated pension expense	(1.0)
Updated long-term debt rate	(0.2)
Gas inline inspection expense normalization	(4.2)
Gas revenue requirement increase after stipulated adjustments	24.2

Q. Please explain the "9.55% return on equity" entry in the table above.

A. The Parties agreed for the purposes of these base-rate proceedings that a return on equity of 9.55% is reasonable for LG&E's gas operations, and the agreed stipulated gas revenue requirement increase reflects that return on equity as applied to LG&E's gas capitalization and capital structure underlying its originally proposed gas revenue requirement increase as modified through discovery. Use of a 9.55% return on equity reduces LG&E's proposed gas revenue requirement increase by $3.4 million.[20] Supporting calculations are included in Stipulation Testimony Exhibit KWB-2. Consistent with the Commission's recent precedent of awarding mechanism ROEs that are 20 basis points below awarded base rate ROEs, the Parties have also agreed that an ROE of 9.35% is appropriate for LG&E's Gas Line Tracker ("GLT") mechanism.

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[19] *See* LG&E's Updated Response to PSC 1-56 dated Feb. 26, 2021; LG&E Schedule M-2.1-G. The value shown in the table results from subtracting the updated revenue requirement increase difference shown in LG&E's Updated Response to PSC 1-56 from the unadjusted total revenue requirement increase shown in LG&E Schedule M-2.1-G.

[20] Stipulation ¶ 3.2(A).

The proposed 9.55% return on equity for gas base rates represents a compromise from the Parties' litigation positions but is, as previously discussed, supported by evidence in the record of these proceedings. Therefore, the Companies respectfully submit the Commission should accept it in the overall context of the Stipulation.

Q. Please explain the "Updated pension and OPEB [Other Post-Employment Benefits] expense" entry in the table above.

A. The stipulated gas revenue requirement increase reflects using LG&E's updated 2021 pension and OPEB projections received from the Companies' actuary as the new test year estimate for purpose of calculating the revenue requirement. This adjustment reduces LG&E's proposed gas revenue requirement increase by $1.0 million.[21]

Q. Please explain the "Updated long-term debt rate" entry in the table above.

A. The stipulated gas revenue requirement increase reflects a recommendation proposed by AG-KIUC witness Baudino, who proposed that the coupon rate for new long-term debt included in the Companies' forecasted test year should be reduced from 3.70% to 3.40%.[22] This adjustment reduces LG&E's proposed gas revenue requirement increase by $0.2 million.[23]

Q. Please explain the "Gas inline inspection expense normalization" entry in the table above.

A. The stipulated gas revenue requirement increase reflects the Parties' agreement that inline inspection expenses included in the forecasted test year for LG&E's gas

[21] *See* Rebuttal Testimony of Daniel K. Arbough at Rebuttal Exhibit DKA-1.
[22] Direct Testimony of Richard A. Baudino at 41.
[23] Direct Testimony of Lane Kollen at 103-104.

operations should be reduced to a normalized level using the five-year period 2021-2025. As these expenses represent ongoing expenses to comply with a new regulation, there are no comparable historic results to include in the normalization period. The five-year period is consistent with the Companies' detailed business plan that includes a project schedule of the inspections to be performed. This adjustment reduces the proposed revenue requirement increase for LG&E's gas operations by $4.2 million.[24] Supporting calculations are included in Stipulation Testimony Exhibit KWB-3.

Residential Basic Service Charges to Remain at Current Levels

Q. Please explain Stipulation ¶ 4.3 provision concerning residential Basic Service Charges.

A. The Companies presented cost-of-service evidence in these proceedings to support increasing their current residential Basic Service Charges.[25] Other Parties who addressed residential Basic Service Charges argued against increasing residential Basic Service Charges from their current levels.[26] In the interest of reaching a stipulation on nearly all of the issues in these proceedings, the Parties have agreed the Companies should maintain their residential Basic Service Charges at their current levels. This agreement is reflected in the agreed tariffs attached as exhibits to the Stipulation (Stipulation Exhibit 5 (KU), Stipulation Exhibit 6 (LG&E electric), and Stipulation Exhibit 7 (LG&E gas)). Also attached as exhibits to the Stipulation are schedules showing the revenue allocations and rate designs upon which the Parties have agreed

[24] Stipulation ¶ 3.2(C).
[25] *See, e.g.,* Direct Testimony of W. Steven Seelye at 16-21.
[26] *See, e.g.,* Direct Testimony of Glenn A. Watkins at 72-88; Direct Testimony of James Owen at 36-41.

(Stipulation Exhibit 2 (KU), Stipulation Exhibit 3 (LG&E electric), and Stipulation Exhibit 4 (LG&E gas)).

<u>**Scheduled Plant Outage Expense Adjustment**</u>

Q. Please explain the Stipulation provision concerning "Scheduled Plant Outage Expense Adjustment."[27]

A. In the Companies' 2016 and 2018 base rate cases, the Commission approved a stipulation that established the level of scheduled plant outage expense to be used in determining the Companies' electric revenue requirements and gave the Companies continuing use of regulatory asset and liability accounting related to generator outage expenses greater or less than the amount included in base rates.[28]

In these proceedings, the Parties agree to use the Companies' normalized level of plant outage expenses as filed effective with the change in base rates on July 1, 2021. But in a change from current practice and to address concerns raised by certain intervenors during these proceedings on this topic, effective July 1, 2021, the Parties agree the Companies will *not* establish any regulatory assets or liabilities to account for the differences between actual plant outage expenses and those to be embedded in base rates established in these proceedings.

[27] Stipulation ¶ 5.1.

[28] Case No. 2018-00294, Order at 30 and Appendix A (Ky. PSC Apr. 30, 2019); Case No. 2018-00295, Order at 33 and Appendix A (Ky. PSC Apr. 30, 2019); Case No. 2016-00370, Order at 28 and Appendix A (Ky. PSC June 22, 2017); Case No. 2016-00371, Order at 35 and Appendix A (Ky. PSC June 22, 2017).

Advanced Metering Infrastructure ("AMI") Ratemaking

Q. Please explain the Stipulation provision "Advanced Metering Infrastructure ("AMI") Ratemaking."[29]

A. The Companies proposed in these proceedings a full deployment of AMI, seeking the necessary certificates of public convenience and necessity for the deployment, asking for certain regulatory waivers, and explaining the Companies' proposed deferral accounting approach to minimize or eliminate any combined revenue requirement impact of the deployment when the Companies eventually sought cost recovery for the deployment.[30] The Companies presented an innovative ratemaking position for their investment in AMI which is described in detail in my direct and rebuttal testimony. The cost of the proposed AMI investment is not included in the revenue requirements in these cases.

Regarding the proposed AMI deployment, the Parties agreed to the following ratemaking-related items to allow the AMI deployment to proceed according to the Companies' proposed approach:

- The Companies will record their investment in the AMI project as Construction Work In Progress ("CWIP") and accrue an allowance for funds used during construction ("AFUDC") during the AMI implementation period.
- Until the Companies' first proceedings to address AMI revenue requirements following AMI implementation, the Companies will record a regulatory liability to include: (1) the amount by which their actual meter reading and field service expenses are less than

[29] Stipulation ¶ 5.2.
[30] *See, e.g.,* Direct Testimony of Kent W. Blake at 9-20.

the forecast test period level embedded into base rates during these current proceedings; and (2) the cost of capital effect during the implementation period for the reduction in net book value and increase in accumulated deferred income taxes for meters replaced and retired during the AMI implementation. This term completely resolves the argument of AG/KIUC witness Mr. Kollen of "retained savings" by the Companies during the AMI implementation period.

- The Companies will also record a regulatory asset during the AMI implementation period comprising three components: (1) operating expenses associated with the project implementation; (2) the remaining net book value of electric meters replaced and retired as part of this project less any excess depreciation recovered in base revenues after the electric meters are replaced and retired; and (3) the difference between AFUDC accrued at the Companies' weighted average cost of capital and that calculated using the methodology approved by the Federal Energy Regulatory Commission.
- For tax purposes, depreciation will begin as the AMI meters, network and systems are put into service at interim dates during the implementation period. Book depreciation expense will be recorded when the entire project is placed in service for the benefit of customers.
- The Companies will seek AMI cost recovery and to amortize their AMI-related regulatory assets and liabilities in appropriate proceedings following AMI implementation. Although the period over which to amortize AMI-related regulatory assets and liabilities will be set in post-implementation proceedings, the Parties agree it is reasonable to amortize the AMI-related depreciation of the capital and initial software and networking assets, including meters, over a 15-year period.

The Parties further agreed to address possible changes to the Companies' data use and customer service disconnection policies, if any, in the post-implementation proceedings. Also, the Companies agreed to work with Walmart and other interested Parties regarding certain AMI-related data-sharing issues.

The Parties also expressly recognized and agreed that in approving this AMI ratemaking proposal the Commission is not foregoing its authority to review the costs, regulatory assets, and regulatory liabilities for ratemaking purposes in future base rate cases or other regulatory proceedings.

With all of these items clarified and agreed, the Parties agreed that the Companies' requested AMI-related certificates of public convenience and necessity and other AMI-related relief requested in the Companies' Applications should be granted.

Electric Plant Retirements and Retirement Rider

Q. Please explain the Stipulation provision "Electric Plant Retirements and Retirement Rider."[31]

A. This provision is related to the "Continue to use current depreciation rates for MC 1 and 2 and Brown 3" adjustments to the Companies' proposed revenue requirements increases that I described above. In particular, the Parties recognize that continuing to use *current* depreciation rates for Mill Creek Unit 1, Mill Creek Unit 2, and E.W. Brown Unit 3 could result in significant remaining net book value and uncollected decommissioning costs for these generating assets when they are retired. Therefore, the Parties have agreed that the Companies should recover the Retirement Costs of such

[31] Stipulation ¶ 5.3.

retired assets and other site-related assets that will not continue in use through a Retired Asset Recovery Rider (attached to the Stipulation as Stipulation Exhibits 8 (KU) and 9 (LG&E)) until the Retirement Costs are fully recovered. "Retirement Costs" include the net book value, materials and supplies that cannot be used economically at other plants owned by the Companies, and decommissioning or removal costs and salvage credits, net of related accumulated deferred income tax ("ADIT"), including the tax benefits from tax losses. This approach helps customers by reducing revenue requirements in the near term while also ensuring recovery of, and a return on, the Companies' prudent investments in these generating facilities.

Under the Retired Asset Recovery Rider approach, the Companies will record Retirement Costs exclusive of ADIT as regulatory assets. The Companies will then recover the Retirement Costs and ADIT on a levelized basis, including a weighted average cost of capital carrying cost using the most recently approved base rate return on equity. The recovery period for each retired generating until included in the Retired Asset Recovery Rider will be ten years from the retirement date of the unit. This levelized recovery approach over a ten-year period again helps customers by spreading cost recovery evenly over time rather than having higher cost recovery in the early years of the ten-year recovery period.

The Retired Asset Recovery Riders will also include a credit for the depreciation expense and rate of return component for each retired unit embedded in base rates at that time to prevent double-recovery of such costs. The Companies have also committed to use best efforts to minimize the cost of dismantling the retired assets and to maximize salvage credits, all for customers' benefit.

Also, the Retired Asset Recovery Riders will use the Group 1 and Group 2 methodology for revenue allocation used in the Companies' Environmental Cost Recovery Surcharges to ensure a fair, just, and reasonable allocation of cost recovery among the Companies' customer classes.

The Retired Asset Recovery Rider is attached to the Stipulation as Stipulation Exhibits 8 (KU) and 9 (LG&E) and in the tariffs attached to the Stipulation as Stipulation Exhibits 5 (KU) and 6 (LG&E Electric). The Parties are recommending the approval of the Retired Asset Recovery Rider tariff provisions in these cases as part of the overall Stipulation. If approved, the Companies will make separate filings with the Commission in the future to establish the specific costs to be collected through the charges assessed by these riders.

Lighting Issues

Q. Please explain the Stipulation provision "Lighting Issues."[32]

A. LFUCG and Louisville Metro had raised concerns about the Companies' lighting rates, and in particular their proposed LED conversion fees.[33] To address these and related concerns, the Parties have agreed to a reduced one-time LED conversion fee for LG&E (from LG&E's filed fee of $277.29 to $260), which will help Louisville Metro achieve its goal to convert all of its streetlights to LED in the near term.

In addition, the Companies have agreed to reduce their monthly LED conversion fees and to include a new LED lighting offering to replace the current 100W HPS Cobra offering, as well as to conduct a competitive bidding process for street

[32] Stipulation ¶ 5.4.
[33] *See, e.g.,* Direct Testimony of Richard Bunch at 21-28.

lighting fixtures every five years to ensure the Companies continue to be able to offer fair, just, and reasonable lighting rates and options.

Finally, the Companies have committed to work with LFUCG and Louisville Metro to explore opportunities to allow streetlight outage notifications from LFUCG and Louisville Metro to flow more directly through to the Companies. This should help reduce overall streetlight outage times, which is a benefit to all customers living in LFUCG and Louisville Metro areas served by the Companies.

Coal Mining Economic Development Options

Q. Please explain the Stipulation provision "Coal Mining Economic Development Options."[34]

A. The Companies recognize that coal mining operations are facing significant economic challenges, and they further acknowledge the historical importance of coal to the Companies' operations and the Commonwealth. Therefore, the Companies have agreed in the Stipulation to work with their coal-mining customers regarding possible economic development options under the Companies' existing tariffs. In accordance with Commission precedent, any such option will ensure that the new rate will provide a contribution to the recovery of fixed costs and will be flexible and time-limited.[35] Finally, to the extent any such mutually agreed economic development options require Commission approval, the Companies commit to seek the necessary approval.

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[34] Stipulation ¶ 5.5.

[35] *See, e.g., An Investigation into the Implementation of Economic Development Rates by Electric and Gas Utilities*, Admin. Case No. 327, Order (Ky. PSC Sept. 24, 1990).

Additional Customer Benefits

Q. Please explain the Stipulation provision "Stakeholder Process to Consider Peak-Time Rebates and an On-Bill Financing Program."[36]

A. A number of the Parties had expressed interest in Peak Time Rebates (after AMI deployment) and on-bill financing for customers' energy-efficiency improvements.[37] Therefore, the Companies have committed in the Stipulation to engage in a stakeholder process using the Companies' existing DSM Advisory Committee for their next DSM filings to consider and evaluate Peak-Time Rebates and an on-bill financing program.

Q. Please explain the Stipulation provision "Low-Income Assistance."[38]

A. The Companies currently make significant annual shareholder contributions for low-income assistance: a total of $1,450,000 each year (contributions of $700,000 to Association of Community Ministries, Inc. ("ACM") for utility assistance, $180,000 for LG&E Home Energy Assistance ("HEA"), $470,000 for KU HEA, and $100,000 for KU Wintercare).[39] In this Stipulation, the Companies have committed to increase those annual contributions by the same percentages as the overall increases in revenue requirements resulting from these proceedings (7.1% for KU and 6.8% for LG&E). The percentage increase for LG&E represents a weighted-average revenue increase for its electric and gas base rates. These contributions are valuable consideration that could not be obtained through litigation, and they demonstrate once again the reasonableness of the Stipulation and why the Commission should approve it without modification.

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[36] Stipulation ¶ 5.6.
[37] *See, e.g.,* Direct Testimony of Paul J. Alvarez at 19-23; Direct Testimony of James Owen at 47-57.
[38] Stipulation ¶ 5.7.
[39] Direct Testimony of Eileen L. Saunders at 16.

Q. Are there any unresolved issues that the Parties have reserved for hearing in these cases?

A. Yes. As recognized in Section 5.8, the Parties have agreed that the Utilities' net metering proposals (Riders NMS-1 and NMS-2) and qualifying facility tariff provisions (Riders SQF and LQF) are not addressed by this Stipulation and may be addressed by any or all Parties at hearing in these proceedings.

<u>Conclusion</u>

Q. Have the Parties agreed that the Commission should approve the Companies' Applications in these proceedings, as modified by the Stipulation, including all of its exhibits?

A. Yes, the Parties have agreed that, except as modified by the Stipulation (including its exhibits), the Commission should approve the Companies' proposed rates, terms, and conditions in these proceedings, with the clear and explicit exception of the net metering issues intentionally carved out of the Stipulation. The Parties believe the Stipulation is a fair, just, and reasonable resolution of all issues in these proceedings with the exception of the net metering issue.

Q. Do you have a recommendation?

A. Yes. LG&E, KU, and the other parties to the Stipulation recommend the Commission approve the Stipulation in its entirety so that the change in base rates can occur for service rendered on and after July 1, 2021. The timing of the approval is important because it avoids the need to put the rates filed with the applications in effect subject to refund pending a final order by the Commission.

Q. Does this conclude your testimony?

A. Yes.

VERIFICATION

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF JEFFERSON)

The undersigned, **Kent W. Blake**, being duly sworn, deposes and says he is the Chief Financial Officer for Kentucky Utilities Company and Louisville Gas and Electric Company and an employee of LG&E and KU Services Company, that he has personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained therein are true and correct to the best of his information, knowledge and belief.

Kt W Blake

Kent W. Blake

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 19th day of April 2021.

Judy Schooler

Notary Public

Notary Public ID No. **603967**

My Commission Expires:

July 11, 2022