

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC TARIFF FILINGS OF)	
LOUISVILLE GAS AND ELECTRIC COMPANY)	
AND KENTUCKY UTILITIES COMPANY)	
TO REVISE PURCHASE RATES FOR)	CASE NO.
SMALL CAPACITY AND LARGE CAPACITY)	2023-00404
COGENERATION AND POWER PRODUCTION)	
QUALIFYING FACILITIES AND)	
NET METERING SERVICE-2 CREDIT RATES)	

REBUTTAL TESTIMONY OF
MICHAEL E. HORNUNG
MANAGER OF PRICING & TARIFFS
KENTUCKY UTILITIES COMPANY AND
LOUISVILLE GAS AND ELECTRIC COMPANY

Filed: April 4, 2024

1 **INTRODUCTION**

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

3 A. My name is Michael E. Hornung. I am the Manager of Pricing/Tariffs for Kentucky
4 Utilities Company (“KU”) and Louisville Gas and Electric Company (“LG&E”)
5 (collectively, “Companies”) and an employee of LG&E and KU Services Company,
6 which provides services to KU and LG&E. My business address is 220 West Main
7 Street, Louisville, Kentucky 40202. A complete statement of my work experience and
8 education is contained in Appendix A.

9 **Q. Have you testified before the Kentucky Public Service Commission before?**

10 A. Yes. I have testified before the Commission on a number of occasions, including in
11 the Companies’ recent proceeding seeking approval of a special contract between KU
12 and BlueOval SK, LLC, Case No. 2023-00123.¹

13 **Q. What is the purpose of your testimony?**

14 A. The primary purpose of my testimony is to rebut the testimony of Joint Intervenors
15 witness Andy McDonald regarding the jobs benefit component of Rider NMS-2. As I
16 show below, the Companies are in full compliance with the Order cited by Mr.
17 McDonald concerning Rider NMS-2.²

¹ *Application of Kentucky Utilities Company For Approval of Special Contract Between Kentucky Utilities Company and BlueOval SK, LLC*, Case No. 2023-00123, Direct Testimony of Michael E. Hornung (Apr. 14, 2023).

² McDonald at 17-18, citing *Electronic Application of Kentucky Utilities Company 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 and Electric Company for an Adjustment of Its Electric and Gas Rates, a Certificate of Public Convenience and Necessity to Deploy Advanced Meter Infrastructure, Approval of Certain Regulatory and Accounting Treatments, and Establishment of a One-Year Surcredit*, Case No. 2020-00350, Order (Ky. PSC Sept. 24, 2021).

1 Also, I offer some additional observations and rebuttal concerning Mr.
2 McDonald’s recommendation to increase the avoided carbon cost component of Rider
3 NMS-2 compensation rates.

4 **Q. Mr. McDonald’s testimony states that the Companies “failed” to address the jobs**
5 **benefit component of Rider NMS-2 in their October 2023 tariff filings “[d]espite**
6 **the Commission’s direction.”³ Did the Companies fail to comply with the**
7 **Commission Order cited by Mr. McDonald?**

8 A. No. As the relevant text from the Order—quoted in Mr. McDonald’s testimony—
9 states, “The Commission directs LG&E/KU to evaluate job benefits and economic
10 development as an export rate component for LG&E/KU’s *next rate case filing*.”⁴ The
11 Companies’ October 2023 tariff filing was not, and is not now, the Companies’ “next
12 rate case filing”; indeed, the Companies are committed to a Commission-approved rate
13 case stay-out that precludes the Companies from having their “next rate case filing”
14 any earlier than would be necessary for new rates to take effect on July 1, 2025.⁵
15 Therefore, the Companies are in full compliance with the cited Commission Order.

16 Moreover, the Companies were not obligated to address Rider NMS-2 in their
17 October 2023 tariff filing at all. Rather, the Companies had stated their intent to update
18 their qualifying facility (“QF”) rates biennially, which necessitated the tariff filing in
19 the fall of 2023.⁶ Because the avoided energy and generation capacity costs used for
20 QF rates are also two components of the Rider NMS-2 compensation rates under the

³ McDonald at 17-18.

⁴ Case Nos. 2020-00349 and 2020-00350, Order at 58 (Ky. PSC Sept. 24, 2021) (emphasis added).

⁵ Case Nos. 2020-00349 and 2020-00350, Order at 13-15, 69 (Ky. PSC June 30, 2021).

⁶ Case Nos. 2020-00349 and 2020-00350, Order at 38 (Ky. PSC Sept. 24, 2021). *See also* 807 KAR 5:054 Sec. 5(1)(a) (“All electric utilities with annual retail sales greater than 500 million kilowatt hours shall provide data to the commission from which avoided costs may be derived not later than June 30, 1982, and not less often than every two (2) years thereafter unless otherwise determined by the commission.”).

1 rubric prescribed by the Commission in the Companies’ 2020 rate cases, the Companies
2 elected—but were not required—to update those components in the same tariff filing
3 for consistency. (Notably, the effect of updating those components was to *increase*
4 NMS-2 compensation rates.) But the Companies did not attempt to adjust the other six
5 NMS-2 components in their October 2023 tariff filing; such items are most efficiently
6 addressed in base rate case proceedings when all of the Companies’ relevant costs are
7 under consideration.

8 **Q. Will the Companies’ next base rate cases likely provide greater clarity concerning**
9 **issues that could affect Rider NMS-2 compensation rates?**

10 A. Yes. Considering the Companies’ rate-case stay-out commitment and public
11 statements about the timing of the Companies’ next rate cases,⁷ the Companies are
12 unlikely to file rate case applications in 2024. That means that the Companies’ 2024
13 Integrated Resource Plan and the U.S. Environmental Protection Agency’s final
14 Greenhouse Gas Rule will help inform a full analysis of Rider NMS-2 rates in the
15 Companies’ next rate case proceedings. That should help reduce some of the current
16 uncertainty about various avoided cost values that build to Rider NMS-2 rates.

17 **Q. Do you have any observations to add concerning Mr. McDonald’s testimony**
18 **advocating for increasing the current avoided carbon cost component of Rider**
19 **NMS-2 rates?**

⁷ See, e.g., PPL Corporation 4th Quarter 2023 Investor Update presentation at slide 5 (February 16, 2024) (“No anticipated base rate case filings in 2024 in Pennsylvania, Kentucky, or Rhode Island”), available at https://filecache.investorroom.com/mr5ir_pplweb2/1082/PPL_2023_Q4%20Investor%20Update%20-%20Final.pdf.

1 A. Yes. Mr. Wilson shows there is no sound economic basis for increasing the value of
2 that component at this time. I offer two additional observations concerning Mr.
3 McDonald’s testimony on this topic.

4 First, Mr. McDonald’s testimony addresses other states’ carbon pricing
5 arrangements as possibly informing avoided carbon costs in Kentucky.⁸ It would be a
6 significant understatement to say that Kentucky is unlikely to voluntarily impose any
7 kind of carbon cost. KRS 278.020(1)(c) continues to support the use of Kentucky coal.
8 Just last year Kentucky enacted KRS 278.262 and 278.264, making it more
9 challenging, not easier, to retire any fossil fuel-fired generating unit. Current Senate
10 Bill 349, which could make retiring fossil fuel-fired generating units more challenging,
11 recently passed both houses of the Kentucky General Assembly by wide margins.⁹ I
12 mention these solely to demonstrate that, notwithstanding what certain other states
13 might be doing, Kentucky is *highly* unlikely to voluntarily impose carbon pricing or
14 restrictions in the current political climate, making any other states’ carbon pricing
15 regimes entirely irrelevant for setting the avoided carbon cost component of the
16 Companies’ NMS-2 rates.

17 Second, the social cost of carbon, however and by whomever constructed, is
18 beyond the jurisdiction of this Commission.¹⁰ To be clear, the lowest reasonable cost

⁸ McDonald at 13-15.

⁹ 2024 SB 349, available at <https://apps.legislature.ky.gov/record/24rs/sb349.html>. See also 2024 HB 445, available at <https://apps.legislature.ky.gov/record/24rs/hb445.html>; 2024 HJR 121, available at <https://apps.legislature.ky.gov/record/24rs/hjr121.html>.

¹⁰ See, e.g., *Electronic Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Review, Modification, and Continuation of Certain Existing, Demand-Side Management and Energy Efficiency Programs*, Case No. 2017-00441, Order at 28 (Ky. PSC Oct. 5, 2018):

[T]he Commission disagrees with MHC’s recommendation to include the cost of non-energy factors and benefits. KRS Chapter 278 creates the Commission as a statutory administrative agency empowered with “exclusive jurisdiction over the regulation of rates and service of

1 means for the Companies to comply with EPA’s enforceable carbon requirements is
2 relevant to Rider NMS-2 ratemaking and well within the Commission’s jurisdiction,
3 but any social cost of carbon EPA might construct to justify its actions is not.
4 Therefore, barring legislative expansions of the Commission’s jurisdiction, any entity’s
5 social cost of carbon calculation has no place in evaluating the avoided carbon cost
6 component of Rider NMS-2 rates.

7 **Q. Do you have any concluding observations regarding Mr. McDonald’s testimony?**

8 A. Yes. The first and foremost consideration in setting Rider NMS-2 rates should be
9 whether they are consistent with lowest reasonable cost service for *all* customers. All
10 customers pay the cost of NMS-2 exported energy, and they should pay no more for
11 that energy than the benefits they receive in the form of genuinely avoided costs. Yet
12 notably absent from the Mr. McDonald’s testimony is any mention of the more than
13 99.7% of the Companies’ customers who are not NMS-2 customers. Also lacking is
14 any mention of the market price of utility-scale solar that would equally well avoid five
15 of the Commission’s eight NMS-2 cost components, including carbon cost. Instead, as
16 Mr. Wilson shows, Mr. McDonald advocates for increasing the avoided carbon cost
17 component multi-fold when the market price of equivalent solar energy shows there is

utilities.” The Commission has no jurisdiction over environmental impacts, health, or other non-energy factors that do not affect rates or service. Lacking jurisdiction over these non-energy factors, the Commission has no authority to require a utility to include such factors in benefit-cost analyses of DSM programs. As LG&E/KU correctly note, it does not follow from their citing in 2014 of the potential avoidance of environmental compliance costs in rates in support of the construction of a 10 MW solar facility that the Commission has jurisdiction in a DSM case to require an analysis of non-energy criteria such as environmental and health factors that have no impact on rates.

See also In the Matter of: Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Rates, a Certificate of Public Convenience and Necessity, Approval of Ownership of Gas Service Lines and Risers, and a Gas Line Surcharge, Case No. 2012-00222, Order at 4 (Ky. PSC Oct. 17, 2012) (quoting Enviro Power, LLC v. Public Service Commission of Kentucky, 2007 WL 289328 at 3 (Ky. App. 2007) (not to be published) (“[R]ates’ or ‘service’ ... are the only two subjects under the jurisdiction of the PSC.”)).

1 no economic basis for increasing it at all; indeed, Mr. Wilson shows there is evidence
2 for *decreasing* it, though the Companies are not advocating for that in this proceeding.

3 Therefore, I conclude that Mr. McDonald's testimony provides no basis for
4 adjusting any component of the Companies' proposed Rider NMS-2 rates. Rather, any
5 increase in the Rider NMS-2 avoided carbon cost component would result in all
6 customers paying more than the lowest reasonable cost for exported NMS-2 energy.
7 Thus, the Commission should decline to increase it in this proceeding.

8 **Q. Does this conclude your testimony?**

9 A. Yes.

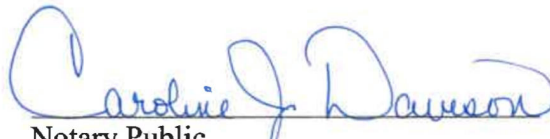
VERIFICATION

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF JEFFERSON)

The undersigned, **Michael E. Hornung**, being duly sworn, deposes and says that he is Manager of Pricing/Tariffs for Kentucky Utilities Company and Louisville Gas and Electric Company and an employee of LG&E and KU Services Company, and 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.


Michael E. Hornung

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 2nd day of April 2024.


Notary Public
Notary Public ID No. KYNP63286

My Commission Expires:

January 22, 2027



APPENDIX A

Michael E. Hornung

Manager, Pricing/Tariffs
LG&E and KU Services Company
220 West Main Street
Louisville, Kentucky 40202
Telephone: (502) 627-4671

Professional Experience

Louisville Gas and Electric Company and Kentucky Utilities Company

Manager, Pricing & Tariffs	Jan. 2018 – Present
Acting Director, Revenue Integrity	Jan. 2017 - July 2017
Manager, Billing Integrity	Jan. 2016 - Dec. 2016
	Jul. 2017 - Dec. 2017
Manager, Energy Efficiency Planning & Development	Aug. 2008 - Dec. 2015
Senior Rate & Regulatory Analyst	Aug. 2006 - Aug. 2008
Senior Market Policy Analyst	Feb. 2000 - Aug. 2006
Senior Financial Analyst	
Risk Management/Trading Controls	June 1999 - Feb. 2000
Senior Accountant at LG&E Energy Marketing	1997 - 1999
Venture Accountant at LG&E Power, Inc.	1996 - 1997
General Labor, LG&E Construction	Summer 1988 & 1989

Professional Memberships

Electric Edison Institute (EEI)	Jan. 2018 - Present
Southeastern Electric Exchange (SEE)	Jan. 2018 - Present

Education

Bachelor of Science in Business Administration – Accounting
University of Louisville, August 1992

Strategic Business Integration: Generation & Energy Marketing, August 2009