

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

Application of Kentucky Utilities Company for an :  
Adjustment of Its Electric Rates and for Certificates of : **Case No. 2016-00370**  
Public Convenience and Necessity. :  
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Application of Louisville Gas & Electric Company for :  
an Adjustment of Its Electric and Gas Rates and for : **Case No. 2016-00371**  
Certificates of Public Convenience and Necessity. :

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**REPLY OF  
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.**

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Kentucky Industrial Utility Customers, Inc. (“KIUC”) submits this Reply to the Responses of The Kroger Co. (“Kroger”), Louisville/Jefferson County Metro Government (“Louisville Metro”), and Kentucky League of Cities (“KLC”) in Opposition to KIUC’s Petition for Rehearing filed July 17, 2017 in the above-captioned proceedings.

With respect to Kroger’s arguments, the Commission must decide whether it supports a policy of helping all customers and all businesses by growing Kentucky’s manufacturing base or whether it supports one expert’s subjective estimate of cost-of-service. We submit that the former approach is more consistent with the Governor’s pro-growth agenda.

Moreover, as KIUC has already explained, the cost-of-service studies filed by the Companies in this case, upon which Kroger’s recommendation is based, do not provide a valid cost-of-service foundation for the Commission’s *sua sponte* approach to allocating the \$5.6 million in incremental revenue reductions. The inputs into those studies remain subject to very legitimate dispute.<sup>1</sup> Even if the Companies’ attempt to project 8,760 of hourly load data for twelve rate schedules was not in dispute, the NARUC Electric Utility Cost Allocation Manual lists at least thirteen embedded demand allocation methods that could be considered, all of which would

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<sup>1</sup> Evidentiary Hearing Tr. (May 10, 2017) at 10:19:45-10:23:24.

yield very different results.<sup>2</sup> Further, the Companies used a Loss of Load Probability (“LOLP”) methodology for purposes of its studies, but could not identify any other utility that used such a methodology for ratemaking.<sup>3</sup> And the Companies’ Base Intermediate Peak (“BIP”) methodology was modified from the version recognized by NARUC.<sup>4</sup> Finally, the Companies’ studies failed to factor in the physical interruptions provided by North American Stainless (“NAS”) under Rate FLS (43 interruptions in 2015 and 26 interruptions in 2016), likely understating the reported rate of return from that rate class.<sup>5</sup> Other policy factors must therefore come into play in setting rates.

With respect to the KLC/Louisville Metro arguments, KIUC is not challenging the wisdom of the Commission, but is instead appealing to that wisdom. Nor is KIUC asking the Commission to undermine the benefit of the Stipulation bargain for other parties as KLC/Louisville Metro insinuate. For instance, the Commission should consider the impacts on the lighting classes represented by KLC/Louisville Metro. Under KIUC’s recommended approach, the lighting service classes would still pay only a 1.73% increase in the LG&E territory and the outdoor lighting classes would still pay only a 1.20% increase in the KU territory – the exact amount bargained for under the Stipulation. The only “*harm*” to those classes would be that they would not receive an additional \$14,640 reduction in the LG&E territory and an additional \$20,945 reduction in the KU territory. For the traffic lighting classes, the “*harm*” would be a meager \$528 in the LG&E territory and \$268 in the KU territory.<sup>6</sup> Conversely, for residential and industrial rate classes that would otherwise pay increases approximately 300% higher than some of the lighting classes, KIUC’s recommendation would provide meaningful relief while furthering economic development in the Commonwealth. The basis for KLC’s/Louisville Metro’s objection to significant reductions for the cities’ citizens merely to secure minimal decreases for themselves is therefore difficult to understand. KIUC’s recommendation upholds its Stipulation commitments by preserving the bargained-for benefits of the Stipulation while also promoting Kentucky state policy objectives.

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<sup>2</sup> Direct Testimony of Glen Watkins at 8.

<sup>3</sup> Direct Testimony of Stephen J. Baron, Case No. 2016-00371 (March 3, 2017)(“Baron Direct Testimony”) at 8:17-9:2.

<sup>4</sup> Baron Direct Testimony at 8:15-17.

<sup>5</sup> Supplemental Testimony of Stephen J. Baron, Case No. 2016-00371 at 13:9-20.

<sup>6</sup> See Attachment to KIUC Petition for Rehearing.

This Commission has demonstrated a new way of doing business at almost every turn. Here, the Commission has yet another opportunity to vote for economic growth and positive change. The Commission should not grant further rate reductions to the commercial and lighting customer classes that are already receiving minimal rate increases pursuant to the Settlement when other classes are paying increases approximately 300% higher. Instead, the Commission should grant rehearing to adopt KIUC's recommendation that the \$5.6 million in incremental revenue reductions ordered by the Commission be used to decrease rates only for the residential and large industrial rate classes.

Respectfully submitted,



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