COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF DUKE ENERGY KENTUCKY, INC. FOR: 1) AN ADJUSTMENT OF THE ELECTRIC RATES; 2) APPROVAL OF AN ENVIRONMENTAL COMPLIANCE PLAN AND SURCHARGE MECHANISM; 3) APPROVAL OF NEW TARIFFS; 4) APPROVAL OF ACCOUNTING PRACTICES TO ESTABLISH REGULATORY ASSETS AND LIABILITIES, AND 5) ALL OTHER REQUIRED APPROVALS AND RELIEF	)	CASE NO. 2017-00321

ORDER

The matter is before the Commission upon a petition for rehearing filed by the Kentucky School Boards Association ("KSBA"). KSBA seeks rehearing of the April 13, 2018 Order ("Final Order") solely on the issue associated with the 85 percent demand ratchet contained in Rate Schedule DS as it applies to the P-12 public and private schools ("P-12 Schools"). KSBA argues that the Final Order erred in denying KSBA's request to eliminate, or at least reduce, the demand ratchet from Rate DS for P-12 Schools. KSBA asserts that P-12 Schools' peak usage occurs in September and Duke Kentucky's system peak occurs in July. KSBA further asserts that because the P-12 School peak in July is more than 40 percent below the P-12 Schools' peak load in September, Duke Kentucky "requires less capacity cost to serve its system peak load" and, therefore, applying an 85 percent demand ratchet causes P-12 Schools with greater than 100 kilowatt ("kW") annual loads to improperly subsidize the other Rate DS ratepayers in the annual amount of $260,000. KSBA argues that the only way in which the 85 percent demand ratchet would be equitable for P-12 Schools is if P-12 Schools ignored the requirement of KRS 160.325 to reduce energy costs and operated inefficiently at 85 percent of their September peak in July.

Duke Kentucky filed a response, arguing that KSBA fails to offer any compelling evidence that its members are not reasonably similar to other customers in Rate DS. Duke Kentucky points out that the rebuttal testimony of its witness, Mr. Bruce Sailers, discusses why the data underlying KSBA's calculations is speculative at best. Duke Kentucky contends that the demand ratchet properly requires P-12 Schools to pay a fair share of the transmission and generation costs incurred by the company to serve them in light of the fact that P-12 Schools contribute to Duke Kentucky's peak load. Duke Kentucky argues that hot summer weather can occur during the time frames when P-12 Schools are in session. Lastly, Duke Kentucky takes issue with KSBA's assertion that the demand ratchet could be equitable only if P-12 Schools were to ignore the statutory mandate to implement energy efficient measures and operate inefficiently in July. Duke Kentucky maintains that P-12 Schools can undertake energy conservation efforts throughout the entire year and that schools can set their peak load in early June or late August without any efforts to operate inefficiently.

In its reply, KSBA points out that the Commission, in Case No. 2017-00179,[1] rejected a provision in a settlement agreement that would have established a K-12 (this is the same category of schools referred to by KSBA as P-12) tariff which would have

[1] Case No. 2017-00179, *Electronic Application of Kentucky Power Company for a (1) General Adjustment of its Rates for Electric Service; (2) An Order Approving its 2017 Environmental Compliance Plan; (3) An Order Approving its Tariffs and Riders; (4) An Order Approving Accounting Practices to Establish Regulatory Assets and Liabilities; and (5) An Order Granting All Other Approvals and Relief* (Ky. PSC Jan. 18, 2018).

provided a $500,000 annual subsidy to the K-12 public and private schools within the service territory of Kentucky Power Company ("Kentucky Power"). This $500,000 subsidy would be borne by the other ratepayers on Kentucky Power's Rate LGS. KSBA noted that the Commission rejected that K-12 tariff provision because the reduction in the rates charged to K-12 public and private schools in Kentucky Power's service territory would be absorbed by the other ratepayers in Rate LGS. Relying on the claim that P-12 Schools with annual loads greater than 100 kW in Duke Kentucky's service territory are subsidizing other customers on Rate DS because of the 85 percent demand ratchet, KSBA argues that the subsidy in this matter should be addressed on rehearing in order to be consistent with the Commission's ruling in Case No. 2017-00179.

KSBA also responded to certain claims made by Duke Kentucky in its response. First, KSBA argues that the data used in its calculations was information provided by Duke Kentucky for 38 school accounts. Second, KSBA states that Duke Kentucky misunderstands KSBA's statement regarding its contribution to Duke Kentucky peak load. KSBA clarifies its position that P-12 Schools do not contribute to Duke Kentucky's July system peak at the P-12 Schools' September peak level. Third, KSBA asserts that the record reflects that Duke Kentucky's system peak has occurred in July five out of the last six years and that, based on the historical record, there is a significant likelihood of Duke Kentucky experiencing a peak in July in the future. Lastly, KSBA argues that the imposition of the 85 percent demand ratchet creates a disincentive for P-12 Schools to reduce their demand throughout the year, not just during the peak demand period in September, thereby creating a conflict with the mandates of KRS 160.325.

DISCUSSION

In addressing this issue in the April 13, 2018 Final Order, the Commission stated that it was not convinced that public school usage characteristics support special treatment compared to other customers serviced under Rate DS, and that it would not approve KSBA's recommendation. With this Order, the Commission reaffirms its April 13, 2018 decision in this matter and will deny KSBA's petition for rehearing.

KSBA's calculation of a subsidy being paid by P-12 Schools and its request for special treatment is based upon the results of its cost-of-service study ("COSS"). KSBA used Duke Kentucky's COSS as a starting point. Based on information provided by Duke Kentucky, KSBA states that there are 75 P-12 Schools currently served under Rate DS, 66 of which have demands greater than 100 kW and 9 which have demands of less than 100 kW. In developing its own COSS, KSBA then segregated 38 out of the 66 schools with demands greater than 100 kW from Rate DS into a separate rate class and determined that this subset of P-12 Schools produced a higher rate of return than the other Rate DS customers.[2] The other Rate DS customers included 28 P-12 Schools with demands greater than 100 kW and 9 P-12 Schools with demands below 100 kW, which were not segregated into the separate rate class. KSBA then claimed that P-12 Schools with demands greater than 100 kW were subsidizing other Rate DS customers in the amount of $260,000. The Commission finds KSBA's calculations to be incomplete, inconclusive, and inadequate to support granting KSBA's petition for rehearing because KSBA's COSS includes data from some, but not all, P-12 Schools that are being served under Rate DS. In contrast, the Commission, in Case No. 2017-

[2] KSBA's response to Commission Staff's Initial Request for Information to Kentucky School Boards Association, Item 3.

00179, rejected the continuation of the Tariff K-12 School for Kentucky Power upon the specific finding that the load research date collected and analyzed by Kentucky Power demonstrated that a separate, discounted, K-12 schools tariff was not justified and that public school usage characteristics did not support the discounted rates paid by Tariff K-12 customers relative to the other customers served in the same rate class.[3]

Further, the Commission finds KSBA's statement that P-12 Schools do not peak when Duke Kentucky's system peaks to be unsupported by the record in this case. As shown by KSBA's response to discovery in this proceeding, P-12 Schools were in session during the 2014/2015 school year when Duke Kentucky experienced its system peak.[4] P-12 Schools contribute to Duke Kentucky's peak and it is possible that the system peak will occur while schools are in session.

In addition, the Commission finds KSBA's argument that the only way the 85 percent demand ratchet would be equitable for P-12 Schools is for P-12 Schools to operate inefficiently in July to be inaccurate. The demand charge is only one component of the bill and P-12 Schools can undertake energy conservation efforts throughout the year.

Finally, the Commission notes that a demand ratchet provides a means of applying a minimum billing to customers who have seasonal or inconsistent demand requirements. Utilities must have facilities in place to generate energy when customers need it and utilities are entitled to recover the fixed costs of serving those customers. KSBA is attempting to convince the Commission that P-12 Schools served under Rate

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[3] Case No. 2017-00179, *Kentucky Power* (Ky. PSC Jan. 18, 2018) at 59.

[4] KSBA's response to Commission Staff's Initial Request for Information to Kentucky School Boards Association, Item 1.

DS are being treated unfairly due to the existence of an 85 percent demand ratchet. However, the Commission finds that KSBA has not supported this assertion, that to eliminate or reduce the demand ratchet for P-12 Schools would result in P-12 Schools receiving unwarranted special treatment, and that KSBA's petition for rehearing should be denied.

IT IS THEREFORE ORDERED that KSBA's petition for rehearing is denied.

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By the Commission

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MAY 18 2018

KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

Gwen R. Pinson

Executive Director

*Adele Frisch
Duke Energy Kentucky, Inc.
139 East Fourth Street
Cincinnati, OH 45201

*Joan M Gates
VP for Legal Affairs & General Counsel
NKU
Administrative Center, Room 824
Highland Heights, KENTUCKY 41099

*Duke Energy Kentucky, Inc.
139 East Fourth Street
Cincinnati, OH 45202

*L Allyson Honaker
Goss Samford, PLLC
2365 Harrodsburg Road, Suite B325
Lexington, KENTUCKY 40504

*James P Henning
President
Duke Energy Kentucky, Inc.
139 East Fourth Street
Cincinnati, OH 45201

*Larry Cook
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Amy B Spiller
Associate General Counsel
Duke Energy Kentucky, Inc.
139 East Fourth Street
Cincinnati, OH 45201

*Jody Kyler Cohn
Boehm, Kurtz & Lowry
36 East Seventh Street
Suite 1510
Cincinnati, OHIO 45202

*E. Minna Rolfes-Adkins
Paralegal
Duke Energy Kentucky, Inc.
139 East Fourth Street
Cincinnati, OH 45201

*William H May, III
Hurt, Deckard & May
The Equus Building
127 West Main Street
Lexington, KENTUCKY 40507

*Justin M. McNeil
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Honorable Michael L Kurtz
Attorney at Law
Boehm, Kurtz & Lowry
36 East Seventh Street
Suite 1510
Cincinnati, OHIO 45202

*David S Samford
Goss Samford, PLLC
2365 Harrodsburg Road, Suite B325
Lexington, KENTUCKY 40504

*Honorable Kurt J Boehm
Attorney at Law
Boehm, Kurtz & Lowry
36 East Seventh Street
Suite 1510
Cincinnati, OHIO 45202

*Honorable Matthew R Malone
Attorney at Law
Hurt, Deckard & May
The Equus Building
127 West Main Street
Lexington, KENTUCKY 40507

*Dennis G Howard, II
Howard Law PLLC
740 Emmett Creek Lane
Lexington, KENTUCKY 40515

*Kent Chandler
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Rebecca W Goodman
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*William Don Wathern, Jr.
Director Rates & Reg. Strategy
Duke Energy Kentucky, Inc.
139 East Fourth Street
Cincinnati, OH 45201

*Duke Energy Kentucky, Inc.
139 East Fourth Street
Cincinnati, OH 45202

*Rocco O D'Ascenzo
Duke Energy Kentucky, Inc.
139 East Fourth Street
Cincinnati, OH 45201