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COMMISSION

Dr. Talina R. Mathews  
Kentucky Public Service Commission  
P.O. Box 615  
Frankfort, KY 40602-0615

Re: Case 2016-00367 Nolin RECC rate case – AG Post-hearing Brief  
Assertion C. – Nolin's Residential Customer Charge...

Dear Dr. Matthews:

In the Post-hearing Brief the Attorney General states:

1. *"All costs are variable in the long run, not fixed."*

This comment is correct. They are variable in the sense that they are affected by inflation in labor and materials costs, the occurrence of severe weather, and changes in interest rates. However, the manner of the Attorney General's assertion implies, incorrectly, that variable means dependent on the amount of electric energy (kWh) used by the consumer. The financial reports filed annually with the PSC clearly show that his assertion is wrong.

Distribution cooperatives are wires and energy delivery companies. They produce no energy. Their costs are solely determined by the cost to construct and maintain the system of wires used for energy delivery and the responsibility to collect the costs of the power the consumer uses and provide the customer service the consumer demands.

The Attorney General's implication that variable costs somehow mean costs dependent on the amount of energy consumed shows a serious ignorance of how the electric system operates.

2. *"Upfront expenses for customer-related distribution costs are most commonly associated with the creation of the distribution system, such as secondary transformers and poles. These costs are incurred regardless of the number of customers that join the system, and should not necessarily be reflected in the customer charge, especially under the incorrect argument that fixed costs must be collected through fixed charges."*

If this assertion is true, then why did Nolin RECC have to increase the size of its distribution system (Number of miles of pole-line in service) by 18% (397 miles of line) from 2005 to 2015 while the size of its territory did not change?

If there is little or no expansion of a distribution system "once it is built" to serve new customers, then why does the PSC have rules on the costs distribution systems can charge customers for the extension of new distribution lines to serve them?

Some of the assertion may apply when dealing with an urban electric distribution system, such as LG&E, where the service area served by the utility is completely built up. However, for distribution cooperatives, which mainly serve rural areas the assertion is blatantly false.

3. *"By recovering short-run fixed costs as long-run variable charges, those who use more electricity receive more benefits and thus pay more than those who receive fewer benefits. In regard to electricity, consumption (i.e., kWh usage) is the best and most direct indicator of benefits received."*

The Attorney General should specifically define what he means by short-run fixed costs. Is he referring to the cost to expand the distribution system to serve more customers, as is implied in (2) above? There is nothing short term about the distribution system. They have existed for 75 years and more and, based on allowed depreciation rates, the individual parts of the system are expected to last for as much as 30 years or more. To keep the system functioning requires constant maintenance.

Is the benefit of the electric distribution system based on how much energy one uses or based on merely being connected to the system that can supply whatever power the consumer demands whenever they demand it? Even people who provide their own power through solar panels want to remain connected to the system because of its value as back-up to their system and the money it saves them in not having to install a battery storage system.

4. *"A pricing structure that is largely fixed, such that customers' effective prices do not properly vary with consumption and such as Mr. Adkins proposes, promotes the inefficient, utilization of resources. Pricing structures weighted heavily on fixed charges are more inferior from a conservation and efficiency standpoint than pricing structure that require consumers to incur more cost with additional consumption."*

What the Attorney General really wants to do is require the consumers who cannot afford to implement conservation measures to subsidize those who can. How many people can afford \$30,000 for a solar system for their house? Yet the people who cannot, are expected by the Attorney General to help pay the cost to continue provide the wires service to these consumers. There are many people in Kentucky who cannot even afford \$4.00 for an LED light bulb. Yet the Attorney General believes that they can afford to help pay the cost of continuing electric service to those who can afford the long-term investment to reduce their energy use.

The Attorney General's continued assertion that fixed costs to provide distribution services to consumers should be considered a variable charge is nothing more than an attempt to require those not fortunate enough to be able to afford a \$30,000 or even a \$4.00 investment in conservation to subsidize those who are more fortunate.

If the Attorney General really wants to control and reduce distribution costs, he should be promoting measures that make these costs more obvious to the consumer. He should be pushing the PSC to require separation on the monthly bill of the cost of energy and the cost of distribution services. This is done on natural gas bills where distribution costs and purchased gas costs are a separate line item. Cooperative electric distribution systems are very much like the gas distribution system. They purchase their energy from a third party and pass those costs along to the consumer.

By requiring that a majority of the costs to operate the distribution system be placed in the variable energy use cost, the PSC is allowing the distribution systems to hide their actual costs from the ultimate consumer. A customer charge that is truly reflective of the actual costs to operate the distribution system would prevent this. The Attorney General keeps talking about market forces and competition. There is nothing more anti-competitive than allowing a supplier to hide their true costs from the consumer.

Yours truly,

A handwritten signature in cursive script, appearing to read "James C. Worley", with a long horizontal flourish extending to the right.

James C. Worley

c.: Attorney General  
Nolin RECC