

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|--|---|-------------------|
| APPLICATION OF KENTUCKY UTILITIES |) | CASE NO. |
| COMPANY FOR AN ADJUSTMENT OF |) | 2012-00221 |
| ITS ELECTRIC RATES |) | |

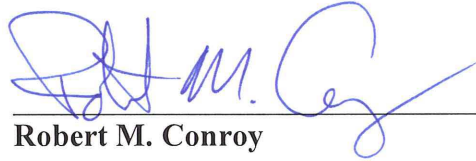
RESPONSE OF
KENTUCKY UTILITIES COMPANY
TO THE
KENTUCKY SCHOOL BOARDS ASSOCIATION'S
INITIAL REQUESTS FOR INFORMATION
DATED JULY 31, 2012

FILED: AUGUST 14, 2012

VERIFICATION

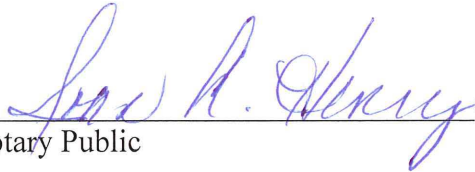
COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Robert M. Conroy**, being duly sworn, deposes and says that he is Director - Rates for LG&E and KU Services Company, and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.



Robert M. Conroy

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 14th day of August 2012.

 (SEAL)

Notary Public

My Commission Expires:

July 31, 2015

KENTUCKY UTILITIES COMPANY

CASE NO. 2012-00221

**Response to Kentucky School Boards Association's
Initial Requests for Information
Dated July 31, 2012**

Question No. 1

Responding Witness: Robert M. Conroy

- Q-1. Please provide a list of the benefits and cost savings achieved by KU/LG&E from harmonizing their tariffs and copies of all analyses performed to determine the savings.
- A-1. In the past several general rate cases, KU/LG&E have been making an effort to harmonize their respective tariffs for the purpose of comparing, recognizing and adopting the best of both companies' rate designs and tariff language. It is an ongoing process that has reduced general confusion arising from a variety of overlapping rates, terms and conditions. In addition to the redesign of the manner in which charges are applied, tariff language has been rewritten to enhance clarity. The changes have resulted in providing customers information with greater clarity and understanding in the terms and conditions for services and reducing the opportunities for confusion and misunderstanding. In addition, the harmonization of the tariffs between KU and LG&E allows customer service representatives to respond to customers, regardless of whether they are KU or LG&E customers, in a more consistent manner. No analysis of any resulting savings has been performed.

KENTUCKY UTILITIES COMPANY

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**Response to Kentucky School Boards Association's
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Question No. 2

Responding Witness: Robert M. Conroy

- Q-2. Please provide copies of all studies comparing the usage characteristics of the various types of customers receiving service from KU.
- A-2. The Company has not performed such studies.

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**Response to Kentucky School Boards Association's
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Question No. 3

Responding Witness: Robert M. Conroy

- Q-3. Does Mr. Conroy agree that KU's Rate AES is supportable from an economic standpoint?
- A-3. No. The AES rate does not account for the differing costs to serve different delivery voltages, i.e. secondary customers and primary customers are served at the same price, though the costs are different to serve each kind of customer. Also Rate AES includes a range of customer loads being served on a rate with only a Basic Service charge and a flat Energy Charge, even though those charges do not and cannot accurately reflect the costs of serving such a wide variety of loads (including variety in terms of both size and load pattern). Indeed, it is precisely because different kinds of loads have different costs of service that KU has multiple rate classes. For example, non-residential customers with average maximum loads of 50 kW or less take service under Rate GS, whereas customers with average maximum loads above 50 kW take service under Rate PS or other rates. Of KU's Rate AES customers, approximately one third have average maximum loads exceeding 50 kW. Serving such varied loads under one rate structure does not comport with well-established cost-of-service principles.

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Question No. 4

Responding Witness: Robert M. Conroy

- Q-4. Given the statutory directives contained in KRS 160.325 and KRS 157.455 for public schools to focus on energy management and construction and renovation of highly efficient and net zero schools would KU agree that unfreezing Rate Schedule AES would serve the public interest without harming KU's other customers?
- A-4. No. Although KU appreciates customers' energy-efficiency efforts, the question of which rate is appropriate for a customer is a separate and distinct issue. KU works to create different rate schedules that accurately reflect the costs to serve groups of customers with similar service characteristics. As described at length in KU's response to Question No. 3 above, schools have widely varying service characteristics that have varying costs to serve, making Rate AES an exception to the fundamental cost-of-service-based-rate methodology.

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Question No. 5

Responding Witness: Robert M. Conroy

- Q-5. Given the unique characteristics of schools do KU and LG&E believe it appropriate to establish time-of-day rates available to all k-12 schools? If not, please explain.
- A-5. Time-differentiated demand rates are appropriate for any customer class where the additional cost of time-based metering is justified.

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Question No. 6

Responding Witness: Robert M. Conroy

- Q-6. Please provide an approximate percentage or number breakdown by SIC code of customers provided service pursuant to the KU's GS, PS and TOD Rate Schedules.
- A-6. KU does not have a business reason to maintain the requested information. Therefore, KU cannot provide the requested information.

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Question No. 7

Responding Witness: Robert M. Conroy

- Q-7. Please clarify if school flashing lights that operate only during school hours qualify for service under KU's TE Rate Schedules. If no, please explain why the availability provision should not be modified to permit such service.
- A-7. No. School flashing lights do not qualify for Rate TE which was designed for small loads with around-the-clock energy requirements.

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Question No. 8

Responding Witness: Robert M. Conroy

- Q-8. Does KU agree that the Meter Pulse Charge facilitates load management by customers and that with the exception of certain industrial customers the associated service and cost recovery should become part of KU's demand-side management programs?
- A-8. No. The pulse meter charge by itself does not facilitate load management by customers. However, for customers who have installed equipment to accept a meter pulse and collect that data for load visualization and analysis the pulse provides a valuable tool for customers to manage both their peak and energy usage. The pulse meter mechanism is a precursor to advanced metering and meter data management systems which can provide this service to customers and which is specifically mentioned for consideration in KRS 278.285(1)(h) for residential customers. The challenge is determining the cost effectiveness of offering programs that provide data and then depend upon customer behavioral changes to achieve energy efficiency or demand reductions; the company consistently reviews these types of tools and analyzes the resulting cost and benefits to determine their value for inclusion in any DSM program.

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Question No. 9

Responding Witness: Robert M. Conroy

- Q-9. Please provide copies of any studies performed by, or on behalf of KU, of inter and intra-class subsidization.
- A-9. KU is not aware of any such studies beyond the cost of service study filed in this case. See Conroy Exhibit C4.

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Question No. 10

Responding Witness: Robert M. Conroy

- Q-10. Is it Mr. Conroy's opinion that all customers and rate classes should eventually have the same rate of return when evaluated using KU's cost of service methodology? Please explain.
- A-10. Yes. Consistent with the long-standing rate-making principle of gradualism, KU has been incrementally moving the rate design of each rate schedule towards achieving an equal rate of return across all customer classes.

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Question No. 11

Responding Witness: Robert M. Conroy

- Q-11. KU states the average impact of their requested increase by rate schedule. What does KU believe to be a reasonable deviation from that average to comply with their expressed gradualism principle?
- A-11. A permanent, structural deviation from cost-of-service-based rates, including a fair, just, and reasonable rate of return, is inconsistent with fundamental cost-of-service rate-making. The purpose of gradualism is to avoid rate shocks to customers when changing rates to align more closely with cost-of-service principles, but the objective remains to bring all rate classes' rates into alignment with their respective costs of service. Any persistent deviation from cost-of-service-based rates would be inconsistent with gradualism and cost-of-service principles, and would therefore be unreasonable.

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Question No. 12

Responding Witness: Robert M. Conroy

- Q-12. Please provide copies of any analyses performed by KU to determine if some customers will be unreasonably affected by their requests.
- A-12. The request asks KU to assume that “some customers will be unreasonably affected by their requests.” KU provides information and assistance to customers, but does not make business judgment for customers. Customers possess the most knowledge and judgment about their current and future energy consumption and business plans.

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Question No. 13

Responding Witness: Robert M. Conroy

Q-13. Please explain how the monthly billing demand ratchet percentages stated in KU's PS and TOD schedules were determined and provide the cost support for the stated percentages.

A-13. For Rate PS, the percentages of 50% of the maximum billing demand in the previous eleven months and 60% of the contract demand recognize both the historical percentages used in previous rates and the contribution of the generation and transmission components to the total demand charges. The objective is to ensure a revenue stream recovering the installed facilities serving the individual customer. Similarly, for Rate TOD's percentages were set at 50% and 75%.

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Question No. 14

Responding Witness: Robert M. Conroy

- Q-14. Please provide the per unit energy cost reflected in the monthly energy charge in KU's PS and TOD rate schedules.
- A-14. In responding to the request for information, the Company assumes the KSBA is referring to the energy related cost based on cost of service. The requested information is contained in the workpapers for Conroy Exhibit C4 provided in response to PSC 2-75.