

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES) CASE NO.
COMPANY FOR AN ADJUSTMENT OF ITS) 2014-00371
ELECTRIC RATES)

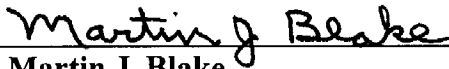
SUPPLEMENTAL RESPONSE OF
KENTUCKY UTILITIES COMPANY
TO
SIERRA CLUB'S INITIAL DATA REQUESTS
DATED JANUARY 8, 2015

FILED: FEBRUARY 4, 2015

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) **SS:**
COUNTY OF OLDHAM)

The undersigned, **Dr. Martin J. Blake**, being duly sworn, deposes and states that he is a Principal of The Prime Group, LLC, 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.



Dr. Martin J. Blake

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 4th day of February 2015.

 (SEAL)

 Notary Public

My Commission Expires:
10/13/2018



KENTUCKY UTILITIES COMPANY

CASE NO. 2014-00371

February 4, 2015 Supplemental Response to Sierra Club's Initial Data Requests

Dated January 8, 2015

Question No. 6(e)

Responding Witness: Dr. Martin J. Blake

Q-6. Reference Martin Blake, p. 21, ll. 3-7.

- a) Please explain why the Company believes that intra-class subsidies should be avoided. Please cite to all relevant economic literature relied on as the basis for this belief.
- b) Is Dr. Blake aware of any economic rationale or ratemaking principle for maintaining intra-class subsidies? Please explain.
- c) Please cite to all relevant economic literature relied on as the basis for the assertion that the "ratemaking principle" for avoiding intra-class subsidies is the recovery of "fixed costs" through basic service charges.
- d) Is it Dr. Blake's contention that demand-related generation, transmission, and distribution costs are "fixed costs"? If so, does Dr. Blake believe that recovering such demand-related fixed costs through energy charges would create intra-class subsidies? Please explain.
- e) Under the Company's current rate design for residential customers, does Dr. Blake believe that demand-related generation, transmission, and distribution costs should be recovered through the basic service charge or through the energy charge? Please explain.

A-6. e) ORIGINAL

Ideally, the demand-related generation and transmission fixed costs would be recovered using a coincident peak demand charge, the demand-related distribution fixed costs would be recovered using a non-coincident peak demand charge, the customer-related distribution fixed costs would be recovered using a fixed monthly customer charge and the energy-related costs would be recovered using a kWh charge. Ideally, the demand-related fixed costs and customer-related fixed costs would not be recovered using an energy charge as this variabilizes these costs and results in intra-class subsidies. Historically, residential demand-related fixed costs have been recovered using a kWh charge because of ease of calculation and the cost

of the metering technology needed to measure coincident and non-coincident peak demands. The optional residential demand rate that KU is proposing is a move in the direction of recovering the various types of fixed costs using the rate component that most closely reflects cost causation.

e) SUPPLEMENTAL

Demand-related generation, transmission, and distribution costs are all fixed costs but they have different cost drivers. Under KU's current residential rate structure that has only a fixed monthly basic service charge and an energy charge, I would suggest recovering the demand-related distribution costs through the basic service charge and the demand-related generation and transmission costs through the energy charge. Please note that the Company's proposed basic service charge does not include a demand-related-distribution-cost component, and so is less than the basic service charge that my recommendation would produce. Moreover, as shown in Exhibit MJB-10 to my testimony, only customer-related costs, not demand-related costs, are included in the calculation of the "customer charge," and the Company is proposing in this case a basic service charge (\$18.00) that is less than the "customer charge" calculated in Exhibit MJB-10, so the Company's proposed basic service charge will not recover all customer-related costs, much less any demand-related costs.

Also, I would note that neither the residential basic service charge nor the residential energy charge aligns with the relevant cost drivers for demand-related generation, transmission, and distribution costs. Thus, collecting demand-related generation and transmission costs using a kWh charge and collecting demand-related distribution costs in the fixed basic monthly charge does not accurately reflect cost causation; however, residential demand-related fixed costs have historically been recovered using a kWh charge because of ease of calculation and the cost of the metering technology needed to measure coincident and non-coincident peak demands.

Ideally, the demand-related generation and transmission fixed costs would be recovered using a coincident peak demand charge, the demand-related distribution fixed costs would be recovered using a non-coincident peak demand charge, the customer-related distribution fixed costs would be recovered using a fixed monthly customer charge and the energy-related costs would be recovered using a kWh charge. Ideally, the demand-related fixed costs and customer-related fixed costs would not be recovered using an energy charge as this variabilizes these costs and results in intra-class subsidies. The optional residential demand rate that KU is proposing is a move in the direction of recovering the various types of fixed costs using the rate component that most closely reflects cost causation.