

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC)
COMPANY FOR AN ADJUSTMENT OF ITS) CASE NO.
ELECTRIC AND GAS RATES) 2014-00372

SUPPLEMENTAL RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
TO
WALLACE MCMULLEN AND SIERRA CLUB'S AMENDED INITIAL DATA
REQUESTS
DATED JANUARY 8, 2015

FILED: FEBRUARY 4, 2015

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2014-00372

**February 4, 2015 Supplemental Response to Wallace McMullen and Sierra Club Amended
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 LG&E 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 LG&E'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 LG&E 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.