COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS	**)**	
AND ELECTRIC COMPANY FOR AN	**)**	
ADJUSTMENT OF ITS ELECTRIC RATES	**)**	**CASE NO. 2016-00371**
AND FOR CERTIFICATES OF PUBLIC	**)**	
CONVENIENCE AND NECESSITY	**)**	

SIERRA CLUB AND AMY WATERS'S RESPONSES AND OBJECTIONS TO COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION TO LOUISVILLE GAS AND ELECTRIC COMPANY

Intervenors Sierra Club and Amy Waters (collectively "Sierra Club") hereby submit their responses and objections to Commission Staff's Initial Request for Information, dated March 17, 2017, in connection with the pending application of Louisville Gas & Electric Company ("LG&E" or "the Company") in the above-captioned matter.

GENERAL OBJECTIONS

A. Sierra Club objects to Requests that are not relevant to the above referenced proceedings. Kentucky Rule of Evidence 401.

B. Sierra Club objects to Requests that are not "reasonably calculated to lead to the discovery of admissible evidence." Kentucky Civil Rule 26.02(1).

C. Sierra Club objects to Requests that are overly broad, unduly burdensome, oppressive, or calculated to take Sierra Club and its staff away from normal work activities, and require them to expend significant resources to provide complete and accurate answers. Kentucky Civil Rule 26.02.

D. Sierra Club reserves all of its evidentiary objections or other objections to the introduction or use of any response at any hearing in this action.

E. Sierra Club does not, by any response to any Request, waive any objections to that Request.

F. Sierra Club does not admit the validity of any legal or factual contention asserted or assumed in the text of any Request.

G. Sierra Club reserves the right to assert additional objections as appropriate, and to amend or supplement these objections and responses as appropriate.

H. The foregoing general objections shall apply to each of the following Requests whether or not restated in the response to any particular response.

Request No. 1(a): "Refer to the Testimony of Jonathan Wallach ("Wallach Testimony"), pages 5-10. (a) State whether Sierra Club is aware that the National Association of Regulatory Utility Commissioners' Electric Utility Cost Allocation Manual ("NARUC Cost Allocation Manual") states that distribution plant accounts 364 through 370 (which includes poles, conductors, and line transformers) involve both demand and customer costs."

Response to Request No. 1(a):

Mr. Wallach does not testify in this proceeding regarding the appropriate method for classifying embedded costs for the purposes of allocating such costs to rate classes in the Company's cost of service study. Instead, Mr. Wallach's testimony is concerned with the Company's proposal to rely on the results of its classification approach to set the rate for the basic service charge.

Nonetheless, Mr. Wallach is aware that the NARUC Cost Allocation Manual states on page 90 that, for the purposes of allocating distribution plant costs in an *embedded* cost of service study, "distribution plant Accounts 364 through 370 involve demand and customer costs."

On the other hand, the NARUC Cost Allocation Manual also states on page 136 that, for purposes of allocating costs in a *marginal* cost study:

> A number of analysts have argued, and commissions have accepted, that the customer component of the distribution system should only include those features of the secondary distribution system located on the customer's own property.

> Portions of the distribution system that serve more than one customer cannot be avoided should one customer cancel service. Similarly, if the customer component of the marginal distribution cost is described as the cost of adding a customer, but no energy flows to the system, there is no reason to add to the distribution lines that serve customers collectively or to increase the optimal investment in the lines that are carrying the combined load of all customers. Therefore, the marginal customer cost of the jointly used distribution system is zero.

Finally, Mr. Wallach is aware that the NARUC Cost Allocation Manual discusses distribution plant cost classification with respect to rate design generally, but not with respect to setting the rate for a customer charge specifically.

Request No. 1(b): "Refer to the Testimony of Jonathan Wallach ("Wallach Testimony"), pages 5-10. … (b) State whether Sierra Club is aware that the NARUC Cost Allocation Manual identifies two common methodologies to determine the demand and customer components of distribution facilities, the zero-intercept methodology and the minimum- size methodology, and states that in most instances, the zero-intercept methodology is more accurate."

Response to Request No. 1(b):

Mr. Wallach does not testify in this proceeding regarding the appropriate method for classifying embedded costs for the purposes of allocating such costs to rate classes in the Company's cost of service study. Instead, Mr. Wallach's testimony is concerned with the Company's proposal to rely on the results of its classification approach to set the rate for the basic service charge.

Nonetheless, Mr. Wallach is aware that the NARUC Cost Allocation Manual identifies two classification methods for the purposes of allocating distribution plant costs in an embedded cost of service study and that it states on page 92 that the zero-intercept method is more accurate than the minimum-size method in most instances.

Mr. Wallach is also aware that a December 2000 report by the Regulatory Assistance Project states that the most common classification method in the U.S. is neither the zero-intercept nor the minimum-size method but the "basic customer" method. (Frederick Weston, *Charging for Distribution Utility Services: Issues in Rate Design*, December 2000, p. 30.) The basic customer method classifies 100% of pole, conductor, and secondary transformer costs as demand-related.

Request No. 1(c): "Refer to the Wallach Testimony, page 9, lines 5-13. State whether Mr. Wallach is aware of any state public service commission approving a cost of service study in which the cost of a company's poles, conductors and secondary transformers was considered to be zero per customer. If yes, provide the name of the state, utility, and case number."

Response to Request No. 1(c):

Mr. Wallach does not claim in his testimony that the *total* cost of the Company's poles, conductors, and secondary transformers per customer is zero. Instead, Mr. Wallach testifies that the *minimum* cost per customer of the Company's poles, conductors, and secondary transformers is zero.

That said, Mr. Wallach is personally aware that the public service commissions in Maryland, Massachusetts, Michigan, Utah, and Wisconsin have approved or relied upon embedded cost of service studies that use the basic customer method to classify distribution plant costs. *See* Maryland PSC Case No. 9406, Application of Baltimore Gas & Elec. Co.; Massachusetts DPU Case No. 15-155, Petition of Massachusetts Elec. Co. and Nantucket Elec. Co. d.b.a. National Grid; Michigan PSC Case No. U-18014, Application of DTE Elec. Co.; Utah PSC Case No. 09-035-23, Application of Rocky Mountain Power; Wisconsin PSC Case No. 6680-UR-120, Wisconsin Power and Light Co.

Moreover, the Regulatory Assistance Project report cited in response to Question 1(b) states on page 30 that the basic customer method is used in more than thirty states. (Frederick Weston, *Charging for Distribution Utility Services: Issues in Rate Design*, December 2000, p.

30.) The basic customer method yields a minimum cost, both in total and per customer, for poles, conductors, and secondary transformer of zero.

Request No. 2: "Refer to the Wallach Testimony, page 11, lines 22-24, which states "[i]n contrast, the basic service charge is intended to reflect the incremental costs imposed by the continued presence of a customer who uses very little energy." Provide the basis for this statement."

Response to Request No. 2:

For one, in *Principles of Public Utility Rates*, James Bonbright states (p. 347) that a "service charge" would include "as a minimum … the costs of metering and billing along with whatever other expenses the company must incur in taking on another consumer." (James C. Bonbright, *Principles of Public Utility Rates*, Columbia University Press, 1961.) Mr. Bonbright further states (p. 348) that "the inclusion of the costs of a minimum-sized distribution system among the customer-related costs seems to me clearly indefensible."

Further, in *The Economics of Regulation*, Alfred Kahn states (p. 95) that "sometimes the tariff will have three instead of two parts – the third, "customer" charge reflecting the costs of services such as meter-reading and billing that vary on a per customer basis instead of with different amounts purchased." (Alfred E. Kahn, *The Economics of Regulation*, The MIT Press, 1988.)

Moreover, in "What's so Great about Fixed Charges?" (https://energyathaas.wordpress.com/2014/11/03/whats-so-great-about-fixed-charges), Severin Borenstein states that:

> Fixed costs fall roughly into two types: customer-specific and systemwide. When having one more customer on the system raises the utility's costs regardless of how much the customer uses – for instance, for metering, billing, and maintaining the line from the distribution system to the house – then a fixed charge to reflect that additional fixed cost the customer imposes on the system makes perfect economic sense. The idea that each household has to cover its customer-specific fixed cost also has obvious appeal on ground of fairness or equity.
>
> But unlike customer-specific fixed costs, there isn't a strong fairness or economic efficiency argument for recovering fixed distribution costs – which are not customer-specific — through a fixed monthly charge.

Finally, in the Regulatory Assistance Project report cited in footnote 8 of Mr. Wallach's testimony, the authors state (p. 36) that "the fixed charge for residential or commercial service should not exceed the customer-specific costs attributable to an incremental consumer." (Jim Lazar & Wilson Gonzalez, *Smart Rate Design for a Smart Future*, Regulatory Assistance Project, 2015.)

Request No. 3: "Refer to the Wallach Testimony, page 12. Provide the document referenced in footnote 8."

Response to Request No. 3:

A copy of the requested report is provided herewith as attachment "RAP Smart Rate Design"; it is also available for download at: http://www.raponline.org/wp-content/uploads/2016/05/rap-lazar-gonzalez-smart-rate-design-july2015.pdf.

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Respectfully submitted,

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CERTIFICATE OF SERVICE

This is to certify that the foregoing copy of the SIERRA CLUB AND AMY WATERS'S RESPONSES AND OBJECTIONS TO COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION is a true and accurate copy of the document being filed in paper medium; that the electronic filing was transmitted to the Commission on March 31, 2017; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; and that a copy of the filing in paper medium is being hand delivered to the Commission.

JOE F. CHILDERS