COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

Application of Kentucky Utilities Company for an Adjustment of Its Electric Rates and for Certificates of Public Convenience and Necessity.	:	**Case No. 2016-00370**
Application of Louisville Gas & Electric Company for an Adjustment of Its Electric and Gas Rates and for Certificates of Public Convenience and Necessity.	:	**Case No. 2016-00371**

PETITION FOR REHEARING OF KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

Pursuant to KRS 278.400, Kentucky Industrial Utility Customers, Inc. ("KIUC") petitions the Kentucky Public Service Commission ("Commission") for rehearing of its June 22, 2017 Orders in the above-captioned proceedings ("Orders"). Specifically, KIUC requests that the Commission grant rehearing to address the argument made in its Post-Hearing Brief that the incremental electric revenue reductions ordered by the Commission (totaling approximately $3.3 million for Kentucky Utilities Company ("KU") and $2.3 million for Louisville Gas & Electric Company ("LG&E")) should only be used to decrease rates for the residential and large industrial (Time of Day Primary, Retail Transmission Service, and Fluctuating Load Service) rate classes. A Memorandum in Support of this recommendation follows.

MEMORANDUM IN SUPPORT

I. The Commission Should Direct That The $5.6 Million In Incremental Revenue Reductions Outlined In the Orders Only Be Used To Decrease Rates For The Residential And Large Industrial Rate Classes.

In its Orders, the Commission reduced the total rate increases for KU and LG&E (collectively, "KU-LG&E" or "Companies") from the level proposed in the April 19, 2017 Stipulation and Recommendation and May 1, 2017 Second Stipulation Recommendation (collectively, the "Settlement"). Because the Commission subsequently adjusted its findings on June 29, 2017 to provide slightly higher rate increases to the Companies, the end result is that the Companies will still receive approximately $5.6 million less than the amount set forth in the Settlement.

KIUC addressed what should happen in such a scenario in its May 31, 2017 Post-Hearing Brief.[1] No other party briefed this issue. KIUC recommended that the Commission should use any incremental revenue reductions to lower the proposed rates for the residential and large industrial (Time of Day Primary, Retail Transmission Service, and Fluctuating Load Service) rate classes. Specifically, KIUC recommended that 50% of any incremental revenue decreases should be used to lower the otherwise applicable residential rates and the other 50% should be used to lower the otherwise applicable rates for the large industrial rate classes.

The Commission did not explicitly address KIUC's recommendation in its Orders. Instead, the Commission simply stated that the incremental reductions to the Companies' stipulated rate increases would be allocated to the energy charges of those customer classes for which revenue increases were proposed in the Settlement in proportion to the increase set forth in that Settlement.[2]

The Commission should grant rehearing to expressly consider and adopt KIUC's recommendation. As KIUC explained, it is reasonable to use part of the incremental revenue decreases to offset the otherwise applicable increase to residential customers because those customers are scheduled to pay above-average rate increases under the Settlement. And with respect to the large industrial customers, lowering their otherwise applicable rate increases would bolster economic development in Kentucky. By contrast, it is reasonable to maintain the level of rate increases for the commercial and lighting classes since those classes are already receiving only minimal increases under the Settlement.

The Commonwealth benefits when large manufacturers in Kentucky are competitive. Indeed, for every direct manufacturing job in Kentucky, there are 2.6 indirect jobs created.[3] In his February 8, 2017 State of the Commonwealth speech, Governor Bevin said that the policy of his Administration is to develop and attract

[1] KIUC Post-Hearing Brief at 7-8.
[2] Orders at 24.
[3] KIUC Response to Kentucky Utilities Company and Louisville Gas and Electric Company's Initial Request for Information, Response No. 3 at 5.

manufacturing jobs in Kentucky. Specifically, Governor Bevin affirmed that it is his vision *"that Kentucky becomes the hub of excellence for engineering and manufacturing in America."*[4]

Mitigating potential rate impacts on large electric-intensive manufacturers in Kentucky is also important given the vulnerability of those manufacturers to rate increases. A recent report by the Kentucky Energy and Environment Cabinet described the importance of low electric rates to the Commonwealth's economy:

> *Kentucky's electricity-intensive manufacturing economy is threatened by increasing electricity prices. While the price of electricity is only one of several factors influencing industrial location decisions, Kentucky's historically low and stable electricity prices have fostered the most electricity-intensive economy in the United States. In the twenty-first century, the bulwark of the Kentucky economy is clearly manufactured goods—the Commonwealth's single largest source of economic activity.*[5]

The report concluded that:

> *Given a 25% forecasted increase in the real price of electricity in Kentucky between 2011 and 2025, this study estimates the Commonwealth will likely lose, or fail to create, approximately 30,000 full-time jobs in the long-term. Manufacturing establishments were found to be most responsive to changes in electricity prices and can be expected to permanently shed 17,500 full-time jobs.*[6]

Commercial businesses, like Burger King and Home Depot, are population-based and compete locally. Commercial businesses go where their customers are, regardless of the cost of electricity. That is why there are commercial businesses in Alaska, Hawaii, Massachusetts, and California, where electric prices are 3 to 4 times higher than in Kentucky, but there are no steel or auto manufacturers in those high-cost states. Unlike commercial customers, who do not relocate or shutdown due to electric rate increases, large industrial manufacturers in Kentucky compete nationally and internationally and heavily factor electric rate changes into their decisions to increase, decrease, or relocate operations. Accordingly, given their sensitivity to rate increases and their positive impacts on Kentucky's economy, it is reasonable to use fifty percent of the incremental revenue decreases to mitigate rate impacts on large electric-intensive manufacturers in the Commonwealth.

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[4] Riley Testimony at 6:17-20 (citing State of the Commonwealth Address of Governor Matt Bevin (February 8, 2017), *available at https://www.ket.org/episode/KSOTC%20002901/*; Stipulation Testimony of Robert M. Conroy (April 24, 2017) at 6:18-7:1 (the modified CSR credits *"are consistent with Gov. Bevin's emphasis on making Kentucky a leader in manufacturing.").*

[5] Id. at 6 (citing *The Vulnerability of Kentucky's Manufacturing Economy to Increasing Electricity Prices* (October 2012), *available at http://energy.ky.gov/Programs/Documents/Vulnerability%20of%20Kentucky%27s%20Manufacturing%20Economy.pdf.*

[6] Id. at 5-6.

Moreover, it is particularly unreasonable to grant further rate reductions to the commercial and lighting customer classes that are already receiving minimal rate increases pursuant to the Settlement. For example, as shown in the attached charts, the LG&E Time of Day Secondary Service rate class would have received only a 1.90% increase under the Settlement and the LG&E Outdoor Lighting rate classes would have received only a 1.73% rate increase. In contrast, the LG&E Residential, Time of Day Primary, and Retail Transmission Service rate classes would have received increases around three times higher (6.70%, 5.36%, and 5.42%, respectively). Because the residential and industrial classes are already paying rate increases that are about 300% more than the commercial and lighting classes, giving the commercial and lighting classes additional reductions is unreasonable.

Further, the KU Lighting Service rate classes would have received a mere 1.20% increase under the Settlement compared to the KU Residential, Time of Day Primary, Retail Transmission Service, and Fluctuating Load Service rate class increases of 3.49%, 3.44%, 3.43%, and 3.42%, respectively. Hence, while it may appear to be the simplest methodology by which to flow the $5.6 million in incremental revenue reductions through the customers, the Commission's *sua sponte* approach results in greater rate reductions to those rate classes already receiving disproportionately low increases pursuant to the Settlement.

Nor can the Commission's approach be justified on the basis of moving rates closer to cost-of-service. Setting utility rates is a legislative function that has been delegated to the Commission by statute. As the Kentucky Supreme Court has explained, "*[t]he legislative grant of power to regulate rates will be strictly construed and will neither be interpreted by implication nor inference. In fixing rates, the commission must give effect to all factors which are prescribed by the legislative body, but may not act on a matter which the legislature has not established.*"[7] Nowhere in Chapter 278 of the Kentucky Revised Statutes did the General Assembly mandate that this Commission set rates exclusively based upon one expert's version of cost-of-service.

The U.S. Supreme Court has long recognized that "*the regulation of utilities is one of the most important of the functions traditionally associated with the police power of the States.*"[8] Ratemaking involves the use of considerable judgment on the part of the Commission, which must weigh many elements of a given case in order to reach an outcome that is fair, just, and reasonable. In addressing this requisite regulatory judgment in the context of cost allocation, the U.S. Supreme Court has stated that "*[a]llocation of costs is not a matter of the slide-rule. It involves judgment on a myriad of facts. It has no claim to an exact science.*"[9] While moving rates closer to one expert's version of cost is typically a valid factor to consider in the ratemaking process, it is only one factor among many. And in this case, there is not even a cost-of-service basis for the Commission's *sua sponte* approach to allocating the $5.6 million in incremental revenue reductions since the inputs into the Companies' cost-of-service studies remain subject to very legitimate dispute.[10] Even if the Companies' attempt to project 8,760 of hourly load data for twelve rate schedules was not in dispute, the NARUC Electric Utility Cost Allocation Manual lists at least thirteen embedded demand allocation methods that could be considered, all of which would yield very different results.[11] Therefore, the Commission should turn to other factors in deciding how to flow the $5.6 million through to customers, including equity considerations and which methodology could help bolster economic development in Kentucky.

To address residential unfairness and to further the economic development policy objectives described above, the Commission should adopt KIUC's recommended methodology for allocating the $5.6 million in incremental revenue reductions. The results of KIUC's approach are set forth in the attached charts. As those charts reflect, KIUC's approach significantly reduces the KU residential rate increase as well as the rate increases for the LG&E and KU large industrial rate classes while still preserving the bargained-for benefits of the Settlement for the commercial and lighting rate classes. In the alternative, because the 50/50 allocation recommended by KIUC provides no meaningful benefit to the LG&E residential class, the Commission could also consider a 60/40 residential/industrial split to flow-through the $2.3 million LG&E incremental revenue reduction.

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[7] *South Cent. Bell Tel. Co. v. Utility Regulatory Com.*, 637 S.W.2d 649, 653 (Ky. 1982).
[8] *Arkansas Electric Co-Op Corp. v Arkansas Public Service Commission*, 461 U.S. 375, 378 (1983).
[9] *Colorado Interstate Gas Co. v. FPC*, 324 U.S. 581 (1945).
[10] Evidentiary Hearing Tr. (May 10, 2017) at 10:19:45-10:23:24.
[11] Direct Testimony of Glen Watkins at 8.

CONCLUSION

WHEREFORE, the Commission should grant rehearing to adopt KIUC's recommendation that the $5.6 million in incremental revenue reductions ordered by the Commission be used to decrease rates only for the residential and large industrial rate classes.

Respectfully submitted,

Michael L. Kurtz, Esq.
Kurt J. Boehm, Esq.
Jody Kyler Cohn, Esq.
BOEHM, KURTZ & LOWRY
36 East Seventh Street, Suite 1510
Cincinnati, Ohio 45202
Ph: (513) 421-2255 Fax: (513) 421-2764
E-Mail: mkurtz@BKLlawfirm.com
kboehm@BKLlawfirm.com
jkylercohn@BKLlawfirm.com

COUNSEL FOR KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

June 17, 2017

Kentucky Utilities Company
Case No. 2016-00370
Summary of Proposed Revenue Increase
for the Twelve Months Ended June 30, 2018

DATA: ____ BASE PERIOD __X__ FORECAST PERIOD
TYPE OF FILING: __X__ ORIGINAL _____ UPDATED _____ REVISED
WORK PAPER REFERENCE NO(S):

	Adjusted Billings Including All ECR Revenue at Current Rates	Stipulated Increase	Percentage Increase	Commission Ordered Increase	Percentage Increase	Allocation of Commission Changes	KIUC Alternative Allocation	Alternative Ordered Increase	Alternative Percentage Increase
Residential Service Rate RS	$ 622,779,411	$ 21,723,154	3.49%	$ 20,421,225	3.28%	$ (1,301,929)	$ (1,659,483)	$ 20,063,671	3.22%
Residential Service Rate RTOD	$ 30,441	$ 1,065	3.50%	$ 1,000	3.29%	$ (65)	$ (81)	$ 984	3.23%
Residential Service Rates	$ 622,809,852	21,724,219	3.49%	20,422,225	3.28%	(1,301,994)	(1,659,565)	20,064,655	3.22%
General Service Rate	$ 239,171,377	$ 8,124,153	3.40%	$ 7,618,843	3.19%	$ (505,310)	$ -	$ 8,124,153	3.40%
All Electric School Rate	$ 14,562,100	$ 494,690	3.40%	$ 464,318	3.19%	$ (30,372)	$ -	$ 494,690	3.40%
Power Service Secondary	$ 179,716,172	$ 6,103,601	3.40%	$ 5,730,358	3.19%	$ (373,243)	$ -	$ 6,103,601	3.40%
Power Service Primary	$ 14,972,312	$ 509,678	3.40%	$ 479,112	3.20%	$ (30,566)	$ -	$ 509,678	3.40%
Power Service Rates	$ 194,688,484	6,613,279	3.40%	6,209,470	3.19%	(403,809)	-	6,613,279	3.40%
Time of Day Secondary Service	$ 111,361,703	$ 3,779,173	3.39%	$ 3,534,112	3.17%	$ (245,061)	$ -	$ 3,779,173	3.39%
Time of Day Primary Service	$ 262,428,533	$ 9,038,207	3.44%	$ 8,502,867	3.24%	$ (535,340)	$ (1,139,042)	$ 7,899,165	3.01%
Retail Transmission Service	$ 89,717,941	$ 3,075,089	3.43%	$ 2,865,409	3.19%	$ (209,680)	$ (387,539)	$ 2,687,550	3.00%
Fluctuating Load Service	$ 30,814,610	$ 1,055,218	3.42%	$ 988,868	3.21%	$ (66,350)	$ (132,984)	$ 922,234	2.99%
Curtailable Service Rider	$ (17,395,776)	$ 1,357,806	7.81%	$ 1,357,806	7.81%	$ -	$ -	$ 1,357,806	-7.81%
Lighting Energy	$ 35,467	$ -	0.00%	$ -	0.00%	$ -	$ -	$ -	
Traffic Lighting Energy	$ 173,457	$ 4,423	2.55%	$ 4,155	2.40%	$ (268)	$ -	$ 4,423	2.55%
Lighting Service	$ 26,150,821								
Restricted Lighting Service	$ 4,238,872								
Total Lighting Service	$ 30,389,694	$ 365,390	1.20%	$ 344,445	1.13%	$ (20,945)	$ -	$ 365,390	1.20%
Public School Rate	$ 19,714,166	$ (747,836)	-3.79%	$ (747,836)	-3.79%	$ -	$ -	$ (747,836)	-3.79%
TOTAL ULTIMATE CUSTOMERS	$ 1,598,471,610	$ 54,883,811	3.43%	$ 51,564,682	3.23%	$ (3,319,129)	$ (3,319,129)	$ 51,564,682	3.23%
Late Payment Charges	$ 3,857,505	$ -	0.00%	$ -	0.00%			$ -	0.00%
Electric Service Revenues	$ 2,108,282	$ -	0.00%	$ -	0.00%			$ -	0.00%
Rent from Electric Property	$ 3,142,645	$ 19,720	0.63%	$ 19,720	0.63%			$ 19,720	0.63%
Other Miscellaneous Electric Revenue	$ 22,338,060	$ -	0.00%	$ -	0.00%			$ -	0.00%
TOTAL JURISDICTIONAL	$ 1,629,918,102	$ 54,903,531	3.37%	$ 51,584,402	3.16%			$ 51,584,402	3.16%

LOUISVILLE GAS AND ELECTRIC COMPANY
Summary of Proposed Electric Revenue Increase
for the Twelve Months Ended June 30, 2018
Electric Operations

DATA: ____ BASE PERIOD __X__ FORECAST PERIOD
TYPE OF FILING: __X__ ORIGINAL _____ UPDATED _____ REVISED
WORK PAPER REFERENCE NO(S):

	Adjusted Billings including All ECR Revenue at Current Rates	Stipulated Increase	Percentage Increase	Commission Ordered Increase	Percentage Increase	Allocation of Commission Changes	KIUC Alternative Allocation	Alternative Allocated Increase	Alternative Percentage Increase
Residential Service - RS	$ 441,462,416	$ 29,565,735	6.70%	$ 28,411,975	6.44%	$ (1,153,760)	$ (1,153,448)	$ 28,412,287	6.44%
Residential Time-of-Day Rate - RTOD	$ 55,652	$ 3,727	6.70%	$ 3,580	6.43%	$ (147)	$ (145)	$ 3,582	6.44%
General Service Rate	$ 170,461,520	$ 8,608,168	5.05%	$ 8,295,740	4.87%	$ (312,428)	$ -	$ 8,608,168	5.05%
Power Service Rate									
Power Service Rate PS - Secondary	$ 158,516,776	$ 7,995,357	5.04%	$ 7,690,244	4.85%	$ (305,113)	$ -	$ 7,995,357	5.04%
Power Service Rate PS - Primary	$ 12,536,325	$ 632,963	5.05%	$ 603,209	4.81%	$ (29,754)	$ -	$ 632,963	5.05%
Total Power Service	$ 171,053,101	$ 8,628,320	5.04%	$ 8,293,453	4.85%	$ (334,867)	$ -	$ 8,628,320	5.04%
Time of Day Secondary Service TODS	$ 77,663,825	$ 1,474,133	1.90%	$ 1,414,829	1.82%	$ (59,304)		$ 1,474,133	1.90%
Time of Day Primary Service TODP	$ 126,370,424	$ 6,778,801	5.36%	$ 6,519,985	5.16%	$ (258,816)	$ (743,963)	$ 6,034,838	4.78%
Retail Transmission Service -- RTS	$ 68,895,503	$ 3,732,449	5.42%	$ 3,583,260	5.20%	$ (149,189)	$ (409,631)	$ 3,322,818	4.82%
Fluctuating Load Service Rate FLS	$ -	$ -	0.00%	$ -	0.00%	$ -	$ -	$ -	
Curtailable Service Riders	$ (4,334,522)	$ 338,179	7.80%	$ 338,179	7.80%	$ -	$ -	$ 338,179	-7.80%
Special Contract -- Customer #1	$ 6,754,787	$ 427,074	6.32%	$ 411,692	6.09%	$ (15,382)	$ -	$ 427,074	6.32%
Special Contract -- Customer #2	$ 3,519,981	$ 204,339	5.81%	$ 196,213	5.57%	$ (8,126)	$ -	$ 204,339	5.81%
Lighting Energy -- LE	$ 244,537	$ -	0.00%	$ -	0.00%	$ -	$ -	$ -	0.00%
Traffic Lighting Energy -- TE	$ 304,220	$ 13,305	4.37%	$ 12,777	4.20%	$ (528)	$ -	$ 13,305	4.37%
Lighting Service -- LS	$ 12,453,087								
Restricted Lighting Service -- RLS	$ 10,936,238								
All Outdoor Lighting -- LS & RLS	$ 23,389,325	$ 403,883	1.73%	$ 389,243	1.66%	$ (14,640)	$ -	$ 403,883	1.73%
Schools	$ 13,154,202	$ (750,070)	-5.70%	$ (750,070)	-5.70%	$ -	$ -	$ (750,070)	-5.70%
TOTAL ULTIMATE CONSUMERS	$ 1,098,994,971	$ 59,428,043	5.41%	$ 57,120,856	5.20%	$ (2,307,187)	$ (2,307,187)	$ 57,120,856	5.20%
Other Operating Revenues:									
Late Payment Charges	$ 2,623,527				0.00%			-	0.00%
Electric Service Revenue	$ 1,599,304				0.00%			-	0.00%
Other Rent from Elec Property	$ 3,785,840	$ (22,391)		$ (22,391)	-0.59%			$ (22,391)	-0.59%
Other Miscellaneous Revenue	$ 13,775,652				0.00%			$ -	0.00%
TOTAL JURISDICTIONAL	$ 1,120,779,294	$ 59,405,652	5.30%	$ 57,098,465	5.09%	$ (2,307,187)	$ (2,307,187)	$ 57,098,465	5.09%