

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

**ELECTRONIC APPLICATION OF KENTUCKY
UTILITIES COMPANY FOR AN ADJUSTMENT OF ITS
ELECTRIC AND GAS RATES AND FOR CERTIFICATES
OF PUBLIC CONVENIENCE AND NECESSITY**

CASE NO. 2016-00370

In the Matter of:

**ELECTRONIC APPLICATION OF LOUISVILLE GAS
AND ELECTRIC COMPANY FOR AN ADJUSTMENT OF
ITS ELECTRIC AND GAS RATES AND FOR
CERTIFICATES OF PUBLIC CONVENIENCE AND
NECESSITY**

CASE NO. 2016-00371

RESPONSE OF THE KROGER COMPANY
IN OPPOSITION TO PETITION FOR REHEARING

Comes The Kroger Company (hereinafter “Kroger”), and for its Response in Opposition to the Petition for Rehearing filed by Kentucky Industrial Utility Authority, Inc. (“KIUC”), states as follows.

Kroger respectfully requests the Public Service Commission (hereinafter “Commission”) to deny KIUC’s Petition for Rehearing (“Petition”). KIUC asserts in its Petition that the incremental electric revenue reductions ordered by the Commission which are in addition to the revenue reductions set forth in the April 19, 2017, Stipulation and Recommendation and the May 1, 2017, Second Stipulation Recommendation (collectively referred to as the “Settlement”) should only be used to decrease rates for residential and large industrial rate classes. KIUC previously made this argument in its Post-Hearing Brief, and the Commission rejected this argument. Instead, the Commission wisely allocated the incremental revenue reductions consistent with the terms of the Settlement reached after the lengthy, good faith negotiations of

the parties. KIUC fails to cite the Commission to any new additional evidence that has been identified since the filing of its Post-Hearing Brief that justifies the modification of the Commission's June 22, 2017 Order. For this reason alone, KIUC's Petition should be denied.

KIUC's Petition should also be denied because it is based on faulty reasoning. It argues that large industrial manufacturers in Kentucky compete nationally and internationally and are therefore uniquely sensitive to rate increases, but that commercial businesses are not sensitive to rate increases. However, such is not the case. Without question, similar to manufacturers, retailers in Kentucky such as Kroger now face significant competition both on a local and on a national level. Maintaining the allocation set forth in the Commission's June 22, 2017 Order is critical to enabling companies such as Kroger to remain competitive in this ever-changing market.

KIUC entered into the Settlement, which moved toward the alignment of rates with cost causation to the greatest extent practicable. As testified to by Neal Townsend, "Properly aligning rates with the costs caused by each customer group is essential for ensuring fairness, as it minimizes cross subsidies among customers. It also sends proper price signals, which improves efficiency in resource utilization." (See Case No. 2016-00371, Prefiled Direct Testimony of Neal Townsend on Behalf of The Kroger Co., p. 5, LL 15-19) Mr. Townsend further testified that "it can be appropriate to mitigate the impact of moving immediately to cost-based rates for customer groups that would experience significant rate increases from doing so." This principle of ratemaking is known as 'gradualism.'" (See Case No. 2016-00371, Prefiled Direct Testimony of Neal Townsend on Behalf of The Kroger Co., p. 5, LL 20-22)

KIUC asserts that the Commission's approach, which moves toward minimizing cross subsidies, cannot "be justified on the basis of moving rates closer to cost-of-service." (Petition at

p. 4) Table T-4 of Neal Townsend's testimony establishes that prior to the Commission's June 22, 2017 Order, the Time of Day Secondary rate class provided a greater subsidy than did other rate classes, including the Time of Day Primary rate class. Mr. Townsend's testimony points out that a rate *decrease* for Time of Day Secondary, instead of the rate increase granted, would be justified. Mr. Townsend further testified that, "Consistent with my recommendation summarized in Table NT-4 above, at a lower revenue requirement, the Time-of-Day Secondary and Lighting Energy Service classes should receive no rate increase. Any reduced revenue requirement should be distributed among the remaining classes, with the percentage reduction (as applied to the percentage increases in Table NT-4) being greater for those classes that are significant subsidy payers." (See Case No. 2016-00371, Prefiled Direct Testimony of Neal Townsend on Behalf of The Kroger Co., p. 12, LL 5-10)

Therefore, the Commission's approach, in which the time of Day Secondary is given an increase only slightly less than the increase given to Time of Day Primary and Retail Transmission, is more than justified on the basis of moving rates closer to cost-of-service.

In conclusion, the Petition of KIUC should be denied, as it has provided no new evidence to the Commission justifying the modification of the June 22, 2017 Order, maintaining the allocation set forth in the Commission's June 22, 2017 Order is critical to enabling companies such as Kroger to remain competitive in this ever-changing market, and properly aligning rates with the costs caused by each customer group is essential for ensuring fairness, as it minimizes cross subsidies among customers.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Robert C. Moore". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

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FILING NOTICE AND CERTIFICATE

I hereby certify that the foregoing is a true and accurate copy of the same document being filed in paper medium with the Commission (which includes a cover letter serving as the required Read1st document) within two (2) business days; that the electronic filing was transmitted to the Commission on July 24, 2017; and that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding.

A handwritten signature in cursive script, appearing to read "Robert C. Moore", written over a horizontal line.

Robert C. Moore

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