COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF DUKE ENERGY KENTUCKY, INC. FOR: 1) AN ADJUSTMENT OF THE ELECTRIC RATES; 2) APPROVAL OF AN ENVIRONMENTAL COMPLIANCE PLAN AND SURCHARGE MECHANISM; 3) APPROVAL OF NEW TARIFFS; 4) APPROVAL OF ACCOUNTING PRACTICES TO ESTABLISH REGULATORY ASSETS AND LIABILITIES; AND 5) ALL OTHER REQUIRED APPROVALS AND RELIEF	)	**CASE NO. 2017-00321**

BRIEF OF NORTHERN KENTUCKY UNIVERSITY

Comes now the intervenor, Northern Kentucky University ("NKU"), by and through counsel, and for its brief, states as follows.

INTRODUCTION

On September 1, 2017, Duke Energy of Kentucky, Inc. ("DEK") filed its application in this case, which was subsequently supplemented with additional information to cure a Commission letter of deficiency dated September 7, 2017. The application was deemed complete on September 19, 2017.

DEK has requested an increase in base electric revenues totaling $48,646,222[1] by using a forecasted test period;[2] however, DEK updated its requested amount to

[1] Lawler Pre-filed testimony, p. 5 (Application, Vol. 15, p. 252 of 344), and Schedule A of the Application, Vol. 12, p.16 of 216, line 8.
[2] Lawler Pre-filed testimony, p. 3 (Application, Vol. 15, p. 250 of 344).

$30,084,703 when the Company filed its rebuttal testimony.[3] DEK also requests approval of an environmental compliance plan and surcharge mechanism, new tariffs, approval of accounting practices to establish regulatory assets and liabilities and other relief which the Commission may offer. Various parties have been granted intervention in the matter including Northern Kentucky University ("NKU"), the Kentucky Attorney General ("AG"), the Kentucky School Boards Association, Kroger Company, and Kentucky Industrial Utility Customers ("KIUC"). An evidentiary hearing was conducted from March 6 through March 8, 2018 and numerous post-hearing data requests have been filed into the record.

Based on the record taken as a whole, the Commission should deny DEK's request for any increase in rates, and in fact order a decrease; accept the Company's class cost of revenue allocation as corrected in the proceeding and implement same for the refund to be distributed to its ratepayers; deny the Company's request for a Rider DCI (Distribution Capital Investment); and deny the Company's request for Rider FTR (FERC Transmission Cost Reconciliation).

I. THE COMMISSION SHOULD ADOPT THE ATTORNEY GENERAL'S RECOMMENDED REVENUE REQUIREMENT.

NKU adopts and incorporates the AG's recommended revenue requirement for DEK and arguments therefore as though stated herein.

[3] See, for example, Lawler Rebuttal testimony, p. 3.

II. THE COMPANY HAS PROPOSED A CLASS COST OF SERVICE STUDY ("CCOSS")AND RATE DESIGN RESULTING IN A REASONABLE REVENUE ALLOCATION WHICH THE COMMISSION SHOULD APPROVE.

The Company used the Average of the Twelve ("12") Coincident Peaks ("12CP") cost of service methodology for allocating costs to its rate classes.[4,5] This is the methodology used by the Company in its last rate case and is an accepted methodology in the electric utility industry.[6] Importantly, no other party to this proceeding has objected to the 12CP approach except for the Attorney General. However, the Attorney General testified as follows with regard to class rates of return:

> Q. What are your conclusions regarding the proper class allocation of Duke's Cost of Service?
>
> As shown in the tables above, there are some minor differences in absolute rates of return across the 12-CP, BIP, and P&A methods. However, class rates of return are directionally identical and all three methods produce reasonably similar results. As a result, I conclude that the 12-CP study results recommended by Duke serves as a reasonable basis for evaluating class profitability.[7]

On the revenue allocation between the classes, the Attorney General did note several anomalous results and proposals for the non-residential classes but offered no challenge or alternative to the Company's approach.[8] No other party to the proceeding has offered any significant challenge or alternative to the Company's overall inter-class[9] revenue allocation except for Kroger which takes issue with DEK's 10% reduction in the class subsidy and argues for a further reduction of the subsidy. Specifically, Kroger

[4] Ziolkowski Pre-filed testimony, p. 7 (Application, Vol. 20, p. 213 of 237).
[5] Ziolkowski testimony, VTE, Vol. II, 11:46.
[6] Id.
[7] Watkins' Pre-filed testimony, p. 22, lines 18 -24.
[8] Watkins' Pre-filed testimony, p. 25 - 27.
[9] KSBA does propose an intra-class adjustment affecting Rate DS. NKU takes no position on the request.

recommends 50% of the corporate tax rate revenue requirement reduction be applied to all rate classes and the remaining 50% of the corporate rate reduction "should be used to further reduce interclass subsidies" based on an allocation "to the subsidy-paying classes on a pro-rata basis in proportion to the amount of the subsidy each class is currently paying in its present rates."[10] Fundamentally, the change in the federal income tax translates to a lower expense for the Company using its forecasted test year and not a savings[11] compared to the Company's use of a historical test year. Thus, the total reduction should be applied to the total revenue requirement and not parsed out to individual classes. The reduction Kroger recommends would also defy the regulatory concept of gradualism, which is a long-standing practice of the Commission.[12,13] Accordingly, the Commission should not accept Kroger's recommendation.

By implementing the Company's CCOSS, the Commission would recognize and accept the overall rate of return calculated by the Company in its CCOSS at present rates as being 2.83%. The results of the Company's 12CP CCOSS indicate that five rate classes, specifically Rates DS, GS-FL, SP, DT-Secondary, and TT are providing rates of return above the system average rate of return of 2.83% at present rates. The CCOSS indicates that six rate classes, specifically Rates RS, EH, DT-Primary, DP, Lighting, and Water Pumping are providing rates of return below the system average rate of return.

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[10] Bieber Pre-filed testimony, p. 10, lines 11-14.
[11] Bieber testimony, VTE, Vol. III, 9:24
[12] See, for example, *In the Matter of Application of Big Rivers Electric Corporation for a General Adjustment in Rates*, Case. No. 2011-00036, Order dated November 17, 2011, p. 29.
[13] DEK also agrees that Kroger's position, which is revenue neutral to DEK, is "not a fair result for the Company's customers." Sailers' Rebuttal testimony, p. 16.

A CCOSS compares the cost that each customer class imposes on the system to the revenues each class contributes. This relationship is generally presented by comparing the rate of return that a class is providing with the utility's overall jurisdictional rate of return. A rate class that produces a rate of return above the system average rate of return is providing revenue in excess of its allocated class cost of service. It is not only paying revenues sufficient to cover the cost attributable to it, but in addition, it is paying part of the cost attributable to other classes who produce below system average rates of return.

A rate class that produces a rate of return below the system average rate of return provides revenue that does not recover its allocated class cost of service. The revenue provided by the class is insufficient to cover all relevant costs to serve that class. The Company uses the results of its recommended CCOSS as a guide in allocating its revenue requirement to its rate classes but does not propose to bring all classes to full cost of service. Because the Company's CCOSS indicated that there were considerable differences among the rate classes with respect to the rate of return provided to the Company at present rates, some classes would experience much greater increases on a percentage basis as compared to other classes in order to bring all classes to cost of service.[14]

As a result, the Company determined that it was appropriate to mitigate rate shock for certain customer rate classes by not bringing all classes to their calculated class cost of service under proposed rates. To accomplish this, the Company is

[14] Ziolkowski Pre-filed testimony, p. 26 (Application, Vol. 20, p. 232 of 237).

proposing an equitable and reasonable two-step process to allocate its proposed revenue increase to rate classes. The first step eliminates 10 percent of the subsidy/excess revenue between customer classes based on present revenues (which the company has done in the interest of fairness for all parties to the case[15]). The second step allocates the rate increase to customer classes based on rate base.[16]

The Company's proposal recognizes that some classes would experience large cost of service based increases without some form of rate mitigation. The Company's proposed class revenue allocation results in some movement toward cost of service and appropriately recognizes the principle of gradualism,[17] a ratemaking principle which has been accepted and applied by the Commission in determining revenue allocation.

Accordingly, given Commission precedent, the reasonableness of the class revenue allocation and the lack of any opposition to the Company's approach,[18] the Commission should adopt the Company's proposed revenue allocation method.

III. DEK'S RIDER DCI IS UNREASONABLE, UNWARRANTED, AND CONTRARY TO COMMISSION PRECEDENT. ACCORDINGLY, IT SHOULD BE DENIED.

The Company proposes to implement a Rider DCI (Distribution Capital Investment) which is a discrete cost adjustment mechanism that would recover the ongoing incremental capital investments for specific Commission-approved

[15] Ziolkowski testimony, VTE, Vol. II, 11:53:50.
[16] Ziolkowski Pre-filed testimony, p. 26 (Application, Vol. 20, p. 232 of 237).
[17] Ziolkowski Pre-filed testimony, p. 28 (Application, Vol. 20, p. 234 of 237).
[18] Attorney General Witness Watkins testified that Rate DT-Primary is "an apparent anomaly" wherein "this class is producing a rate of return below the system average rate of return." See Watkins' Pre-filed testimony, p. 26. However, he does not contest Rate DT's class revenue allocation.

distribution reliability and integrity enhancement programs.[19] The initial program as envisioned by the Company is the replacement of overhead wires with underground cables as well as taking "over the ownership of underground service lines that are replaced either as part of the Targeted Underground Program or customer-owned underground service lines ".[20]

Before evaluating the details of any proposed riders, an explanation of the definition of a rider and the criteria which the Commission has historically considered necessary for the establishment of a rider is essential.

By definition, and in general terms as relates to utility service rates, a rider is an adjunct to a utility's basic tariffs, with distinct pricing or other terms of service, that works in conjunction with an underlying base rate tariff.

Traditionally, the criteria needed for establishment of a rider are that the cost elements subject to the regulatory mechanism meet the following: (1) must be outside the utility's control; (2) must be volatile and unpredictable; and (3) must be large enough to significantly affect the utility's ability to earn its authorized return.

Cost elements that do not satisfy all three criteria above are best recovered through the normal ratemaking process; otherwise, riders that recover single cost elements are burdensome to utility customers.[21]

Riders are burdensome to ratepayers given the frequent rate changes on their bills. Specifically, a rider permits changes in rates more frequently because the utility

[19] Sailers' Pre-filed testimony, p. 15 (Application, Vol. 16, p. 246 of 436).
[20] Platz Pre-filed testimony, pp. 25 - 26 (Application, Vol. 16, pp. 187 - 188 of 436).
[21] Collins Pre-filed testimony, p. 9.

does not have to wait until the next rate case to address changes in the single cost element subject to rider recovery. As a result, customers could see frequent rate changes.

More importantly, rather than a complete review of the utility's cost of service in the context of a base rate case, the focus of the rider mechanism is on a single cost element, or single issue. When a utility proposes to recover the increased expense associated with a particular cost element through a rider, there could be decreases in other cost elements that when examined in the context of a base rate case would offset the cost increase to be recovered in the rider. As a result, ratepayers might pay additional costs via the rider that are otherwise unwarranted.[22]

A rider mechanism that is recovered on a periodic basis, whether quarterly or otherwise, and which changes frequently, should be juxtaposed against a base rate case. In between rate cases a utility experiences new costs and revenues, both of which can be greater or less than those in the prior rate base case. Stated differently, this regulatory lag is the time period between the utility's incurrence of a cost and its actual recovery of that cost in base rates as approved by the regulatory Commission. Because of regulatory lag, any increase in efficiency and reductions in cost are retained by a utility until rates are reset in the next rate case. Riders, on the other hand, significantly weaken or eliminate the positive incentives created by regulatory lag and effectively shift risk from the utility to customers.[23]

[22] Collins Pre-filed testimony, p. 10.
[23] Id.

This single issue ratemaking, through riders, potentially skews the relationship among revenues, expense and rate base, possibly leading to excessive utility charges for service. The practice of looking at all of a utility's investment cost and revenue in conjunction during a common period known as the test year is the long-standing rate-setting process of regulatory commissions. In between rate cases, some utility cost or revenue elements may increase, but these may be offset by decreases in other cost elements. Even if a utility's cost structure exhibits a net increase over time, this circumstance alone does not mean a rate adjustment is warranted, as increased revenues from additional sales may be adequate to cover the increased costs. Because all these factors combine to determine proper rates, looking at selected cost elements in isolation between comprehensive rate cases can tilt the balance of costs, savings, and revenues that determine appropriate rate levels. As a result, riders that modify charges to customers for a single element or category of costs without regard to potential offsets should generally be avoided.[24]

Moreover, riders reduce the risk to a utility of not earning an appropriate return on equity because significant portions of the cost of service are subject to almost guaranteed full cost recovery of the particular cost elements that are the subject of the riders. Riders can result in customers paying for more utility service than traditional ratemaking with either an historical test year or projected forecasted test year. Hence, riders can shift the risk of cost recovery to utility customers.

[24] Collins Pre-filed testimony, pp. 11-12.

This shifting of the risk can easily be explained. Utilities, like other business, face numerous factors that can affect overall profitability, positively or negatively, in any given period. For example, in any given year, the state of the economy in its service territory or the severity of weather can have significant effect on a utility's revenues and profitability. General economic factors can also affect levels of customer usage, and as a result, the utility's revenues and profitability.

The normal rate case process provides a utility with opportunities to take account of such factors, including normalizing adjustments, test year selection, and the right to seek needed rate relief. The overall business risk of the utility is also reflected in the utility's cost of capital. The constraints of predetermined rates and the formal justification and proof required to change rates provide incentives for the utility to operate efficiently. Riders shift the risk of cost variations from the utility to ratepayers and alter otherwise effective regulatory incentives. Deviating from the established ratemaking process by allowing a utility to establish riders for recovery of single cost elements should be considered only upon a showing of compelling need.

The targeted underground distribution line replacement does not meet the traditional criteria for a rider. The proposed rider would recover the incremental

revenue requirement associated with certain programs to proactively improve the reliability of its electric distribution system[25]. These costs are more appropriately recovered in the Company's base rates. The Company has not demonstrated that this cost item is outside the utility's control nor is it volatile and unpredictable. Moreover, the risk of recovery of these costs is mitigated by the Company's use of a forecasted test year.

To the extent the projects contemplated to be completed under Rider DCI are beneficial to consumers and determined to be prudent projects to undertake, the Company should do so as part of the general course of business and include the cost of such projects in its next rate cases.[26]

The Targeted Underground Program fails to meet the criteria to qualify for treatment as a rider. Specifically, any associated costs for "system reliability" under Rider DCI are not volatile and do not jeopardize the Company's opportunity to earn a reasonable return on its investment, especially in light of the Company's assertions that it is providing high quality customer satisfaction and has also managed to avoid a rate case since **2007**.

Indeed, DEK's assertions that the program's costs would jeopardize its financial condition are proven otherwise by history. Since the conclusion of DEK's last rate case

[25] Interestingly, DEK maintains it needs to improve its reliability yet touts its JD Power Study results wherein DEK outperformed both the Midwest Region average scores and the large utility industry average, finishing in the second quartile among large utilities nationally. As Henning testified, "The results indicate that Duke Energy consistently provides high quality customer satisfaction." Henning Pre-filed testimony at p. 13. (Application, Vol. 15, p. 27 of 344.) See also Henning testimony, VTE, Vol. I, at 10:18, "I am proud of the service we provide our customers and they are reliable."

[26] Collins testimony, VTE, Vol II, 4:44.

in 2007, the Company has invested over $124 million in plant into service, and; the Company still earned a return on equity ("ROE") of 10.13% in 2016.[27] Moreover, for the years from 2007 through 2016, DEK's average ROE is 9.97%.[28] Hence, it begs the question that DEK does not need a Rider DCI given its historically sound financial condition; and, in fact, the Company's data demonstrates the DCI rider could lead to excessive charges to the ratepayers unless the costs for the program are placed into base rates. In particular, according to the Pre-filed testimony of Company witness Anthony J. Platz at page 29, the Company has projected $5 million of annual expenditures for each year of the period 2019-2021. It has projected annual expenditures of $8 million each year for the period 2022-2025, and $10 million of annual expenditures each year for the period 2026-2027. [29, 30]

The Company's CCOSS in this case includes total distribution depreciation expense of $14,391,125 million per year to be included in base rates.[31, 32] Simple math demonstrates this level of annual depreciation expense will exceed the actual level of distribution investment planned under Rider DCI, although the Company testified at the hearing that it "did not know" this to be the case.[33] Hence, it appears the annual investment projected under Rider DCI will not grow rate base and Rider DCI could result in excessive charges to customers. The Company testified that if it did not reset

[27] Platz testimony, VTE, Vol. II, 9:39 referencing Schedule K of the Base Period Update, p. 200 of 359.
[28] (17.38 + 9.62 + 6.89 + 9.76 + 5.93 + 7.75 + 12.01 + 8.92 + 11.30 + 10.13)/10 = 9.97%; See Schedule K, line 24, Base Period Update, p. 200 of 359. https://psc.ky.gov/pscecf/2017-00321/debbie.gates%40duke-energy.com/01122018112752/2017-321_Update.pdf
[29] NKU Hearing Exhibit 2 (Application, Vol. 16, p. 191 of 436).
[30] Platz testimony, VTE, Vol. II, 9:53:20.
[31] See NKU Hearing Exhibit 1 (Application, Vol. 10, FR-16(7)(v)-1, page 10 of 18, Line 11 (p. 23 of 501)).
[32] Platz testimony, VTE, Vol. II, 9:50.
[33] Platz testimony, VTE, Vol. II, 9:46.

base rates between the conclusion of this case and 2027, the $14.4 million of distribution depreciation expense included in rates would be larger than its investment each year under the Rider DCI build-out.[34] Hence, Rider DCI could lead to excessive charges to ratepayers.

This point was emphasized by NKU's witness Collins.

> **Q. Why does a comparison of the Company's annual expenditures under Rider DCI to its distribution depreciation expense recovery in base rates suggest that Rider DCI would result in excessive charges to customers?**
> A. A comparison of capital expenditures to depreciation expense recovery is an indication of whether or not the Company's total rate base will grow during the forecast period for Rider DCI. To the extent rate base does not grow, or only grows moderately, then base rate revenues may provide the Company an opportunity to recover its cost of service and earn its authorized rate of return during the rate effective period.
> Rider mechanisms are typically used for expenses that cannot be controlled by utility management and reasonably threaten management's ability to time rate filings that will coincide with changes to its cost of service. The capital expenditures under Rider DCI are clearly identified by the Company, and, it can file an application with the PSC to change base rates if the Company believes current base rates are not adequate to fully recover its cost of service.
> However, a base rate change may not be needed if other costs of service decrease, or sales growth provides additional revenue adequate to cover the increased rate base cost. For example, lower operation and maintenance ("O&M") expense as a result of the new investment could partially offset the need for a base rate change.
> **Q. Does improving reliability on a utility's system by investing in new infrastructure produce O&M savings?**
> A. Yes. Newer infrastructure requires less maintenance as compared to aging Infrastructure. To my knowledge, the Company has not proposed to flow any reduced O&M expense experienced as a result of the Rider DCI investment to customers through its proposed rider.[35]

[34] Platz testimony, VTE, Vol. II, 10:25.
[35] Collins' Pre-filed testimony, pp.15-16.

At the hearing, the Company agreed that generally new distribution investment has lower overall distribution O&M expense than aging distribution infrastructure.[36] Depending on the level of distribution investment, the Company agreed that generally the trend would be for a utility's overall distribution O&M expense to decrease as it replaces its aging infrastructure with new investment.[37] The Company agreed that a utility could see an overall reduction in distribution O&M expense between rate cases depending on the level of new distribution investment it makes on its system.[38] The Company admitted that under its proposal for Rider DCI it would not capture any such decrease in distribution O&M expenses resulting from investing in new distribution infrastructure.[39] Suffice it to say, by carving out Rider DCI from base rates, certain offsetting expenses could be lost, or even worse, Rider DCI could lead to a windfall for the Company.

To crystallize the potential financial consequences for the ratepayers, the Company testified that if the Targeted Underground Program and the Rider DCI are approved by the Commission, the Company admitted it did not know how it would recover the costs for the Program under Rider DCI[40]; and, more importantly, the Company agreed that if the Program and Rider DCI are both approved, "that they would cause increased charges to customers."[41]

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[36] Platz testimony, VTE, Vol. II, 9:43:45.
[37] Platz testimony, VTE, Vol. II, 9:44.
[38] Platz testimony, VTE, Vol. II, 9:44:50.
[39] Platz testimony, VTE, Vol. II, 9:45.
[40] Platz testimony, VTE, Vol. II, 9:42:55.
[41] Platz testimony, VTE, Vol. II, 9:43.

Aside from the regulatory treatment of the costs associated with Rider DCI, and perhaps at a more fundamental level, the purpose of the rider is highly questionable. The rider currently addresses the Targeted Underground Program but going forward the Company "will apply to the Commission for consideration of new programs and recovery under the Rider DCI."[42] The proposed program is a policy decision related to enhancing reliability;[43] yet, based on the Company's own testimony, the program has neither enhanced reliability nor have the associated costs proven to be so volatile to as to jeopardize the Company's opportunity to earn a reasonable return on its investment. Specifically, the estimated spend for the program is approximately $15 million to install underground lines for 1,320 customers, or about $11,000 per customer, in three years, and $66 million in 10 years yielding an improvement in reliability by reducing major event days ("MEDS") by a possible 16% for those customers.[44] This virtually insignificant, statistical "reliability" improvement does not justify a Rider DCI.

[redacted].[45] Accordingly, even if the Rider DCI concept was justified and assuming the Company's financial health could be at risk, there is absolutely no reason to engage in single issue ratemaking and carve out one Company expense [redacted].

DEK's Rider DCI is unreasonable, unwarranted and contrary to Commission precedent. Accordingly, it should be denied.

[42] Henning Pre-filed testimony, p. 24, lines 21- 22 (Application, Vol. 15, p. 38 of 344).
[43] Platz testimony, VTE, Vol. II, 9:33.
[44] Platz testimony, VTE, Vol. II, 9:25.
[45] Wathen testimony, VTE, Vol II, CONFIDENTIAL SESSION, at approximately 2:45.

IV. DEK'S FTR RIDER IS UNREASONABLE, UNWARRANTED, AND CONTRARY TO COMMISSION PRECEDENT. ACCORDINGLY, IT SHOULD BE DENIED.

The Company is proposing to implement Rider FTR (FERC Transmission Cost Reconciliation), which is a discrete cost adjustment mechanism that would allow recovery of certain ongoing costs incremental to those costs included in base rates for specific transmission related items.[46]

Rider FTR likewise fails to meet the fundamental criteria for establishing a rider. Specifically, though the Company claims that these costs are out of its control,[47] the Company has not demonstrated that the incremental transmission costs not included in base rates and proposed for recovery in Rider FTR would significantly affect the utility's ability to earn its authorized rate of return. The fact that the Company has established rates on a future test year minimizes the risk that its base rates will not recover all its transmission costs by allowing it an opportunity to provide a reasonable forecast of these costs.

DEK mistakenly argues that because the Commission has approved a certain FTR related rider for Kentucky Power Company under difference circumstances, DEK should be entitled to a rider as well. In case No. 2014-00396,[48] the Commission rejected a proposal by Kentucky Power to remove transmission costs from base rates and have recovery in a transmission rider. The Commission found that:

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[46] See, for example, Sailers' Pre-filed testimony, p.14.
[47] See, for example, Wathen Rebuttal testimony, p. 35.
[48] *In the Matter of Application of Kentucky Power Company for: (1) A General Adjustment of its Rates for Electric Service; (2) An Order Approving its 2014 Environmental Compliance Plan; (3) An Order Approving its Tariffs and Riders; and (4) An Order Granting all Other Required Approvals and Relief,* Case No. 2014-00396.

> The Commission is responsible for ensuring that utilities provide safe and reliable electric service at the least cost. The proposed transmission adjustment would delegate ratemaking authority for transmission service from the Commission to the Federal Energy Regulatory Commission ("FERC") which would increase the cost of transmission service. Further, the proposal is inconsistent under Kentucky law and precedent which give the Commission retail ratemaking authority for vertically utilities."[49]

While DEK acknowledges the existence of the order in Case No. 2014-00396, the Company goes to great length to argue the partial settlement in the most recent Kentucky Power case, Case No. 2017-00179,[50] throws asunder the Commission's ruling in Case No. 2014-00396 thereby creating Commission precedent for approving DEK's requested FTR rider.[51] Case No. 2017-00179 dealt with a partial settlement[52] which was litigated.[53] The relevant provision with the rider within the settlement approved by the Commission only provided for 80% of the recovery of the incremental FERC PJM NITS costs[54] over base rates, unlike that proposed by DEK. Importantly, DEK's FERC costs have not been so volatile to justify the Company filing for a rate increase, unlike the testimony filed by Kentucky Power.[55] Interestingly, DEK denied knowing that at the hearing in Case No. 2017-00179, Kentucky Power testified that the PJM costs at issue in Rider FTR were so volatile that it might single handedly cause the company to come

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[49] See Order dated June 22, 2015, at p.34.

[50] See *In the Matter of Electronic Application of Kentucky Power Company for (1) A General Adjustment of its Rates for Electric Service; (2) An Order Approving its 2017 Environmental Compliance Plan; (3) An Order Approving its Tariffs and Riders; (4) An Order Approving Accounting Practices to Establish Regulatory Assets and Liabilities; and (5) An Order Granting all Other Required Approvals and Relief,* Case No. 2017-00179.

[51] See Wathen Rebuttal Testimony, p. 36.

[52] Wathen acknowledged at the hearing that Case No. 2017-00179 dealt with a partial settlement. VTE, Vol. II at 3:48.

[53] Wathen acknowledged at the hearing that the case was litigated. VTE, Vol. II, 3:48. See also VTE, Vol. II at 3:48.

[54] Wathen testimony, VTE, Vol. II, 3:49.

[55] Wathen testimony, VTE Vol. II, 3:46 Wathen went so far as to testify that "there is almost no single issue that would generate the need for a rate increase. It's a combination of all kinds of costs that go up."

back in for rate relief.[56] Nonetheless, DEK admitted AEP's transmission rates are three and one half times more than DEK's "so the volatility has a lot bigger impact on them [Kentucky Power Company]"[57] and that "it is not surprising to DEK if it would cause Kentucky Power to come in for a rate case."[58] Moreover, DEK admitted that "there is a difference between a utility [DEK] stating that this particular cost is not volatile enough to from year to year to require them to come in for rate relief whereas in Kentucky Power they had testimony to that effect… That's a difference."[59]

The Commission should summarily deny DEK's request for a Rider FTR. It is not volatile. [redacted].[60] Accordingly, even if the Rider FTR concept could be justified, there is no reason to engage in single issue ratemaking and carve out one Company expense [redacted].

DEK's Rider FTR is unreasonable, unwarranted and contrary to Commission precedent. Accordingly, it should be denied.

However, if the Commission approves Rider FTR, NKU respectfully requests NITS (Network Integrated Transmission Costs) related costs, as well as other costs incurred on a demand basis, should be allocated on the basis of demand and collected from classes based on a $ per kW charge as opposed to the collection of these costs on a $ per kWh or energy basis as proposed by the utility.

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[56] Wathen testimony, VTE, Vol. II, 3:50.
[57] Id.
[58] Id.
[59] Wathen testimony, VTE, Vol. II, 3:51.
[60] Wathen testimony, VTE, Vol II, CONFIDENTIAL SESSION, approximately 2:45.

WHEREFORE, NKU respectfully requests the Commission 1) deny DEK's requirement request, and, in lieu thereof, adopt and award that which the Kentucky Attorney General maintains is adequate; 2) adopt the Company's CCOSS and associated revenue allocation for purposes of assigning any decrease or increase in rates; 3) deny DEK's request for Rider DCI; 4) deny the Company's request for Rider FTR; and 5) accept only those portions of the Company's application, if any, which are deemed fair, just and reasonable and related to the safe, adequate and reliable delivery of services to the Company's ratepayers.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I certify that the foregoing is a true and accurate copy of the same document being filed in paper medium with the Commission; that the electronic filing was transmitted to the Commission on April 2, 2018; that there are no parties that the Commission has excused from participation by electronic means in this proceeding; and that one original and six copies of the filing in paper medium are being delivered to the Commission within two (2) business days.

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Dennis G. Howard, II