COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the matter of:	:	CASE NO. 2017-00321
ELECTRONIC APPLICATION OF DUKE ENERGY KENTUCKY, INC. FOR: 1) AN ADJUSTMENT OF THE ELECTRONIC 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	:	

KENTUCKY SCHOOL BOARDS ASSOCIATION'S POST-HEARING BRIEF

The Kentucky School Boards Association (KSBA), by counsel, respectfully provides the following post-hearing brief.

I. Introduction

Duke Energy Kentucky, Inc. ("Duke") seeks to increase rates on its customers. KSBA intervened in this matter on behalf of the public schools in Duke's territory in Northern Kentucky. KSBA member schools will be directly and negatively impacted by Duke's proposed increase.

This case proceeded to a hearing on March 6th, 7th and 8th. Duke seeks double digit increases[1] to rates DS, DT, SP and EH all of which negatively impacts schools. Likewise, as more thoroughly discussed below, the Rate DS Minimum Ratchet results in the schools unfairly subsidizing the rest of the ratepayers on Rate DS as KSBA schools' September peak demand does not coincide with Duke's typical July peak demand. Additionally, as Duke is a summer peaking utility as opposed to a winter peaking utility (e.g. Kentucky Power Company) this matter

[1] Testimony of Ronald Willhite at 3 (December 29, 2017).

and the requests of KSBA herein are distinguishable to KSBA's requests in the recent Kentucky Power Company rate adjustment matter. [2]

II. Standard of Review

Rates charged by a utility must be fair, just, and reasonable.[3] No settlement occurred in this matter and at hearing, KSBA advocated for: (i) the elimination of the Demand Ratchet in Rate DS as it applies to P – 12 schools (public and private) in the existing DS tariff or by creating a new P-12 School Tariff based off the existing Rate DS with no Demand Ratchet (in either case the net result would be the same); (ii) Duke to support and provide funding for the School Energy Manager Program (SEMP); (iii) any increase in Rate EH to mirror any percentage increase for Rate DS; and (iv) Duke to allow some sports fields to migrate to rate SP.

III. Argument

A. The Commission should eliminate the Demand Ratchet from Rate DS for P-12 public and private schools or alternatively minimize the Demand Ratchet effect for P-12 public and private schools

KSBA Witness Ronald Willhite performed a cost of service study herein using the data provided by Duke Energy.[4] Mr. Willhite's cost of service study included 38 of the 66 P – 12 Rate load data points from representative schools provided by Duke or as a percentage 57%.[5] In doing so, he determined that P-12 schools pay a higher rate of return than the rest of the DS class, in effect subsidizing the other ratepayers in the DS class, specifically, 6.33% versus 5.41%.[6] Duke did not rebut this assertion in their rebuttal testimony or at the hearing. The primary reason that P-12 schools subsidize the rest of the DS class involves Duke's 85% demand

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[2] *See Kentucky Power Co*., Case No. 2017-00179.
[3] KRS 278.030(1).
[4] Testimony of Ronald Willhite, p.7 (December 29, 2017).
[5] KSBA (Willhite) Data Request Response to Staff's First Data Request No. 3.
[6] Testimony of Ronald Willhite, p. 7, line 32 (December 29, 2017).

ratchet in Rate DS. Quantifying the loss to public schools, the 85% demand ratchet costs P - 12 schools with greater than 100 kw average loads approximately $260,000 annually.[7]

Duke is a summer peaking utility with its annual peaks generally occurring in July of any given year.[8] Specifically, in five out of the last six years Duke's system peak occurred in July.[9] Conversely, the P - 12 schools peak demand occurs in September of any given year.[10] The lack of coinciding peak demand results in P - 12 schools being charged based on the amount of their September billing demand throughout the rest of the year on a monthly basis. Forcing P - 12 schools to pay an 85% demand ratchet that does not coincide with Duke's summer system peak unfairly benefits other DS ratepayers with P - 12 public schools subsidizing other DS ratepayers in an annual amount of $260,000.[11] In fact, during cross, Duke Witness Mr. Sailers admitted that if a group of customers peak at a different time than the system peak they could subsidize the rest of the ratepayers on that rate (e.g. Rate DS).[12] The Commission is tasked with making sure rates are fair, just and reasonable.[13] During Mr. Willhite's re-direct testimony on March 7, 2018, Mr. Willhite addressed the fact that the demand ratchets for similar rates in other adjoining utilities exist with lower percentages (e.g. LG&E/KU (Rate PS and SPS have 50% ratchets) and Kentucky Power (Rate LGS has a 60% ratchet)).[14] To rectify this subsidization, the Commission should consider the following options; (i) approve Rate P - 12 for public and private schools; or (ii) modify the "DEMAND" clause of the existing rate DS (with two suggestions below):

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[7] Testimony of Ronald Willhite, page 4, lines 2-3 (December 29, 2017).
[8] Testimony of Ronald Willhite, p.4 (December 29, 2017).
[9] Corrected Testimony of Ronald Willhite, p. 4 (March 5, 2017).
[10] Testimony of Ronald Willhite, p. 4 (December 29, 2017).
[11] Testimony of Ronald Willhite, page 5, lines 2-3 (December 29, 2017).
[12] VR: 3/7/18; 12:30:17-12:31:03 and PSC Website.
[13] See fn.3.
[14] VR: 3/7/18; 5:04:43-5:04:45; Final Order Tariffs of Kentucky Power Company and LG&E/KU cases (Case No. 2017-00179 (KY Power) and (2016-00370/371(KU/LG&E)).

If Commission decided to institute Rate P - 12 as a pilot for school accounts with greater than 50 kw[15] average loads it could be instituted with the following “DEMAND” clause:

“DEMAND

The demand shall be the kilowatts derived from the Company's demand meter for the fifteen-minute period of customer's greatest use during the billing period, as determined by the Company, adjusted for power factor, as provided herein. At its option, the Company may not install a demand meter if the nature of the load clearly indicates the load will have a constant demand, in which case the demand will be the calculated demand.

If a customer requests reconnection of an account within twelve (12) months of a disconnection order, the customer's demand record for the period of disconnection will be re-established tor purposes of billing and administration of the preceding clause.”

Alternatively, the Commission could simply modify Duke’s existing Rate DS “DEMAND” clause with the following suggested language:

“DEMAND
The demand shall be the kilowatts derived from the Company's demand meter tor the fifteen-minute period of customer's greatest use during the billing period, as determined by the Company, adjusted for power factor, as provided herein. At its option, the Company may not install a demand meter if the nature of the load clearly indicates the load will have a constant demand, in which case the demand will be the calculated demand.

In no event will the billing demand be taken as less than the higher of the following:

a) 85% of the highest monthly kilowatt demand established in the summer period and effective for the next succeeding eleven (11) months **except for P – 12 customers with average monthly loads greater than 50 kilowatts**;”

b) 50% of the highest monthly kilowatt demand established in the summer period and effective for the next succeeding eleven (11) months for P – 12 customers with average monthly loads greater than 50 kilowatts; and

c) One (1) kilowatt for single phase secondary voltage service and five (5) kilowatts tor three phase secondary voltage service.

[15] See e.g. Testimony of Ronald Willhite, p. 17-19 (RLW Exhibit 3) – example tariff for proposed Rate P-12 for schools with greater than 50kw annual load.

> If a customer requests reconnection of an account within twelve (12) months of a disconnection order, the customer's demand record for the period of disconnection will be re-established tor purposes of billing and administration of the preceding clause.
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> For purposes of administration of the above clause, the summer period is defined as that period represented by the Company's billing for the four (4) revenue months of June through September. The winter period is defined as that period represented by the Company's billing tor the eight (8) revenue months of January through May and October through December."

Simply put, the unfair subsidization should be eliminated in some form as suggested above. Assuming an impact of the $260,000 reduction to schools would be reflected in the DS energy charge, as suggested above, it would increase that charge by $.00023/kwh.[16] For sake of example, if implemented in the revenue neutral way for Duke as suggested above, a business with a 100 kw annual load at a 70 % load factor would incur an annual billing increase of $141 per year. But again, this example customer would then be incurring costs based on the actual cost without the schools subsidizing them, this would be revenue neutral for Duke for public schools, this would eliminate a subsidy and help the P - 12 public schools with annual savings of approximately $260,000. The Commission should rectify this subsidization as suggested above and if agreeable KSBA would appreciate the opportunity to do so even as a pilot for all P - 12 (public and private) schools in Duke's territory.

B. The Commission should require Duke to fund the SEMP through shareholder funds.

Public Schools are tasked pursuant to KRS 160.325 to pursue energy savings. The School Energy Managers Program (SEMP) in other territories has traditionally sought and received funding through the demand-side management (DSM) tariffs. And, KSBA's SEMP has

[16] By eliminating the 85% ratchet to P - 12 schools, if done as suggested above, it is revenue neutral to Duke for public schools as the subsidy would be eliminated but other existing DS ratepayers (outside of the affected school accounts) would incur the cost which they should have borne without the subsidy-

significantly improved cost savings for schools within KU/LG&E's territory and Kentucky Power's territory. Recently, however, the Commission has directed that Kentucky Power not continue funding any DSM programs outside of low-income need based programs. Inasmuch, the future of SEMP is in limbo. Duke (Witness Weintraub) suggested that SEMP proved to be not cost effective however they did not offer any supporting study. Of the support Duke has provided schools in their territory, Duke has paid $951,539 in rebates since 2014 with most ($733,334) going to the five largest districts.[17] $756,000 or 79.5% was paid out in 2017 with $621,000 going to three of the five largest districts (Campbell, Covington and Kenton). There are fifteen districts in Duke's territory, the ten remaining smaller districts have applied for and received none or significantly smaller rebates. These smaller districts do not have energy manager positions or the technical ability in many cases to routinely evaluate and undertake energy efficient projects.

One option the Commission could use here to effectuate SEMP in Duke's territory would be to adopt the prior Commission approach used in Case No. 2012-00578 (Kentucky Power Company, pp.35-36, order October 7, 2013) wherein the Commission included a provision for shareholder contribution beyond the DSM program,

> "Regarding the provision to fund school energy managers, the Commission finds that this provision should be modified to make clear that Kentucky Power's shareholder contribution would be incremental funding for the school energy manager program, which could be for new school energy manager(s) or additional funds for existing school managers, and that the funding would be limited to those schools in Lawrence and contiguous Kentucky counties impacted by KRS 160.325."

Akin to the reasoning above, the Commission should order Duke to provide $148,000 annually in shareholder funding to avoid DSM concerns but also put KSBA in a position to set

[17] Post-hearing data request response of Duke to KSBA.

up SEMP in Duke's territory and spread cost savings to all the districts beyond the big five districts for FY2019 and FY2020.[18]

C. The Commission should require Duke to allow some Sports Fields to Migrate to Rate SP and Only Allow Rate EH to increase proportionately to Rate DS.

KSBA identified three sports fields which would benefit from migrating to Rate SP.[19] Duke in a post hearing data request indicated that the annual savings for a representative sports field would be approximately $1,200 versus Rate DS.[20] While KSBA would certainly appreciate the opportunity to migrate these representative accounts to Rate SP and urges the Commission to allow KSBA to do so, the granting of said request pales in comparison to the annual $260,000 subsidization schools currently suffer from related to the demand ratchet on Rate DS and inasmuch while this migration would be helpful it is non-substantive in comparison to KSBA's primary concern above.

Likewise, while important but not to the magnitude of Rate DS and the demand ratchet, Rate EH is an optional rate for space heating available to schools and churches in some circumstances. Duke proposed increasing Rate EH by 14.2%.[21] There is some question of the veracity of the load data with respect to Rate EH and inasmuch it should only be increased by no greater percentage than the percentage increase for Rate DS.[22]

D. How is Duke different than Kentucky Power Company?

Duke is a summer peaking utility whereas Kentucky Power is a winter peaking utility. Duke must plan and construct their generation and transmission system to meet summer peaks. Conversely, Kentucky Power Company plans and constructs their generation and transmission

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[18] KSBA Response to DEK Question No. 23.
[19] KSBA Response to DEK Question No. 22.
[20] Duke post hearing data request response to STAFF-POST HEARING-DR-01-015.
[21] Testimony of Ronald Willhite, p. 9 (December 29, 2017).
[22] *Id*.

system to meet winter peaks. Both Kentucky Power Company and Duke Energy utilized the average 12 CP (Coincident Peak) method for allocating generation and transmission costs in their filed cost of service study.[23]

In the recent Kentucky Power Company case (2017-00179), results of the cost of service study were as follows: Rate Public School (PS) had a rate of return of 6.17% compared to Rate L.G.S.'s rate of return of 8.29% versus the overall system average of 3.93%.[24] Comparably, in the Duke case at bar, the P - 12 schools are paying a 6.33% rate of return while the remaining DS class pays a 5.41% rate of return and the overall system average is 2.83%.[25] In other words, as opposed to P - 12 schools receiving a reduced rate in the Kentucky Power Company case (2017-00179), in this Duke case, P - 12 schools are paying a subsidy benefitting the other Rate DS ratepayers and the P - 12 schools rate of return is unfairly in excess of Rate DS and the overall system average.

Kentucky Power Company does not have a tariff akin to Duke's Rate EH (electric space heat) and inasmuch, with Kentucky Power Company being a winter peaker, all Kentucky Power Company electric heated schools were served on Rate PS. Comparably, the proposed Duke Rate PS will include few electrically heated schools.

The Commission is tasking with implementing rates which are fair, just and reasonable.[26] As shown above, significant differences exist between the situation in the Kentucky Power Company case (2017-00179) and this Duke case. Namely, P - 12 schools are currently subsidizing Rate DS as opposed to being subsidized. The unfair subsidization should be

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[23] DEK Witness Ziolkowski Direct p. 7 and Direct Testimony of KPC Witness Buck p. 11.
[24] Direct Testimony of KPC Witness Buck p. 19-20.
[25] COSS - KSBA (Willhite) Data Request Response to Staff's First Data Request No. 3.
[26] KRS 278.030(1).

eliminated and KSBA respectfully requests that the Commission grant the relief requested herein.

Respectfully submitted,

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CERTIFICATE OF SERVICE

It is hereby certified, this the 2nd day of April, 2018, that the attached is a true and correct copy of the document being filed in paper medium; that the electronic filing has been transmitted to the Commission on April 2, 2018; that there are currently no parties that have been excused from participation by electronic service; that an original and six copies of this document are being mailed to the Commission on April 2, 2018; and that an electronic notification of the electronic filing will be provided to all counsel listed on the Commission's service list in this proceeding.

/s/Matt Malone
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