

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY )  
UTILITIES COMPANY FOR AN ADJUSTMENT ) CASE NO. 2018-00294  
OF ITS ELECTRIC RATES )

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**LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT’S  
POST-HEARING BRIEF**

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Lexington-Fayette Urban County Government (“LFUCG”), by counsel, hereby submits its Post-Hearing Brief.

On September 28, 2018, Kentucky Utilities (“KU”) filed with the Public Service Commission (“Commission”) its application for an increase in rates. The Commission established Case No. 2018-00294 to review KU’s base rate application.

On October 26, 2018, LFUCG moved to intervene in this matter. In its motion to intervene, LFUCG identified certain issues that were particularly important to it, including KU’s outdoor street lighting rates, proposed increase in Basic Service Charge, requested change from a monthly to daily Basic Service Charge, and bifurcation of energy charges into infrastructure and variable categories. The Commission granted full intervention to LFUCG on November 9, 2018.

LFUCG participated fully in the administrative proceeding. It developed facts through two sets of data requests to KU. LFUCG co-sponsored the testimony of Donna Mullinax, who addressed KU’s revenue requirements. It also contributed to the settlement discussions that eventually resulted in a Stipulation.

The Stipulation was filed by KU on March 1, 2019.<sup>1</sup> It was the product of numerous hours of deliberations over multiple days. It reflects the parties' diverse interests and divergent viewpoints and should be viewed favorably by the Commission.

In consideration of the Commission's aversion to black-box settlements, the Stipulation itemizes adjustments to KU's filed position. It also isolated four issues on which the parties could not agree.<sup>2</sup> Those issues are as follows: (1) the amount of the Basic Service Charges; (2) whether the Basic Service Charge should be identified by a daily rate, as opposed to a monthly rate; (3) whether to split energy charges into infrastructure and variable components for informational purposes only; and (4) the Company's 401(k) contributions for employees who are also participants in the Company's defined benefit plans. This brief addresses those four issues.

**I. KU's residential Basic Service Charge should remain at \$12.25.**

KU proposes to increase the Basic Service Charge for residential electric service from \$12.25 per month to an approximate monthly equivalent of \$16.13.<sup>3</sup> In its supporting testimony, KU maintains that it could justify a significantly higher Basic Service Charge by including all "costs related to the minimum system that each customer must have in place to access the electric grid."<sup>4</sup> KU's calculation of a cost-based residential customer charge, however, includes a portion of distribution plant investment costs associated with poles, overhead lines, underground conductors, conduit, and transformers. It also includes the entire amount of uncollectible expenses, a large portion of administrative and general O&M expenses, other overhead expenses, and an assignment of intangible plant and general plant. The Attorney

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<sup>1</sup> The Companies filed another Stipulation entered into by them and Charter Communications on February 27, 2019.

<sup>2</sup> See Section 4.2 of the Stipulation.

<sup>3</sup> KU proposes to change its Basic Service Charge for residential electric service to a daily rate of \$0.53.

<sup>4</sup> See Testimony of William S. Seelye at 22:3-4 and WSS-2.

General's witness Glenn Watkins explains why it is inappropriate to include those costs within the determination of an appropriate fixed customer charge.<sup>5</sup>

Watkins calculates the monthly customer costs to be \$6.55 per month by including the appropriate amount of allocated costs related to meter and services.<sup>6</sup> Despite the significantly lower cost justification, Watkins recommends that KU's residential Basic Customer Charge remain at \$12.25 per month. By maintaining the current customer charge, rate continuity will be achieved for KU. Maintaining the current customer charge will also promote conservation as any increase will be applied to the energy charge and will send a price signal to customers for using excess electricity.<sup>7</sup>

Keeping KU's residential Basic Customer Charge at \$12.25 per month would present a reasonable compromise between the inflated customer costs calculated by KU and the minimum costs calculated by Watkins. Accordingly, the Commission should not increase KU's residential Basic Customer Charge.

## **II. KU should not be permitted to change to a daily customer charge.**

KU is requesting authority to change its customer charge in any rate classification from a monthly charge to a daily charge. KU maintains that a daily charge is better than a monthly charge for the following reasons: (1) a daily customer charge during billing cycles with fewer days more accurately reflects the fixed costs for each day that a customer takes service; (2) a daily charge facilitates the pro-ration of customer bills when there is a change in service status and makes it easier for customers to understand; and (3) a daily customer charge could also create future optionality for new programs such as electric vehicle rates and pre-paid metering.<sup>8</sup>

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<sup>5</sup> See generally Testimony of Glenn Watkins at 33-37.

<sup>6</sup> See *id.* at GAW-5.

<sup>7</sup> See generally *id.* at 26-28.

<sup>8</sup> See Seeley Testimony at 14:4-16.

Each of these reasons has flaws. And more importantly, none of these reasons override the confusion that would be created by conversion to a daily charge.

Although a daily customer charge during billing cycles with fewer days would produce a lower charge in comparison to a billing cycle with more days, there is no support that this would benefit the customers. In fact, such a policy may negatively impact customers by compounding a high Basic Service Charge in the same lengthy billing cycle during which there is more time to accrue higher energy charges. This may result in larger billing swings from month to month.

There is no evidence to support KU's argument that a daily charge would be easier for customers to understand when entering or leaving in the middle of a billing cycle. KU admits that it prorates bills under these circumstances.<sup>9</sup> It has been prorating bills for a long period, and KU has not presented any evidence that customers cannot understand how or why monthly charges are prorated under appropriate circumstances.

Similarly, there is no evidence that KU needs the daily charge for electric vehicle rates and pre-paid metering. These innovative offerings may be beneficial to customers, but if and when KU offers them, the Commission can evaluate the propriety of a daily charge for those specific programs at that time.

KU's proposed daily customer charge would be confusing. Residential customers have the ability to know what the amount for the Basic Service Charge will be on each bill. Under the proposal, customers have no control over the number of days in a billing period,<sup>10</sup> and therefore, have no ability to know what the amount for the Basic Service Charge will be if the proposal is

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<sup>9</sup> *Id.* at 14:12.

<sup>10</sup>VR: 3/6/19; 9:30:35

approved. And even if they can correctly guess the number of days in a billing period, multiplying the number of days by the daily charge may not be an easy task.<sup>11</sup>

Not only would a daily customer charge be confusing to consumers, it would also be inconsistent with the utility's accounting records. KU provided its alleged cost justification for the Basic Service Charge in WSS-2. Line 27's "Billing Units" are based on monthly bills, instead of days billed. Thus, it appears that KU would have to change its billing analysis to reflect the number of days to be billed during the test year.

For these reasons, the Commission should deny KU's request to change the monthly customer charge to a daily one.

**III. KU should not be permitted to bifurcate its energy charge into variable and infrastructure charges.**

KU seeks approval to break down the energy charge into a variable cost component (variable) and a fixed-cost component (infrastructure). It states that its "purpose . . . is solely educational and informational *at this point in time.*"<sup>12</sup> It is not clear how KU intends to utilize this bifurcation of rates in the future.

Similar to the switch from a monthly to a daily customer charge, the bifurcation of energy-charge components is unnecessarily complicated and confusing. The separately itemized components would add another layer of complexity to KU's bills, and the Commission has previously rejected rate proposals that are unnecessarily complicated and that could generate confusion among customers.<sup>13</sup>

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<sup>11</sup> During the hearing, KU witness Robert Conroy could not provide a specific dollar figure for the Basic Service Charge if the billing period had 26 or 31 days in it. VR: 3/6/19; 9:31:00-9:32:00.

<sup>12</sup> Seelye Testimony at 15:16-18 (emphasis added).

<sup>13</sup> For example, in the last KU rate case, the Commission rejected a two-step proposal to increase the residential Basic Service Charge on those grounds. *Kentucky Utils.*, Case No. 2016-00370 at 19 (Ky. PSC June 22, 2017).

In addition, KU is assigning what “buckets” of costs are included in the two components. There is significant flexibility in how KU groups the different costs, and some costs may not fit entirely in one category or another. Customers will likely not review complicated rate case filings to educate themselves on what components go into each category.<sup>14</sup> Any attempt to provide additional information about this bifurcated rate would further complicate KU’s tariff.

Moreover, it appears that KU is picking out a more complicated way to display certain information on its bills without being willing to consider other breakouts. KU witness Robert Conroy specifically mentioned that the Company would not commit to breaking out charges based on certain itemized classifications such as executive-compensation programs or return on equity because he is not aware that customers have desired to have those breakouts on the tariffs.<sup>15</sup> There is no evidence that suggests customers have desired to have the energy charge broken out into infrastructure and variable components. It is not clear why KU wants to bifurcate the energy charge into certain categories but not others.

For these reasons, the Commission should not allow KU to bifurcate its energy charge into variable and infrastructure charges.

**IV. The Commission should disallow inclusion into the revenue requirement the Company’s 401(k) contributions for employees who are also participants in the Company’s defined benefit plans.**

Consistent with its past practice, KU included in rates its 401(k) contributions for employees who are also participants in the Company’s defined benefit plans. In KU’s last rate case, the Commission found that some of these expenses were excessive for ratemaking purposes

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<sup>14</sup> VR: 3/6/19; 11:02:45.

<sup>15</sup> VR: 3/6/19; 9:39:10-9:39:30.

because KU employees enjoyed other “generous” retirement benefits.<sup>16</sup> The Commission disallowed these expenses for the following employee categories: exempt, manager, non-exempt, and officer and director personnel.<sup>17</sup> KU has not provided any evidence in the record for the Commission to deviate from its ruling in the last case. Accordingly, the Commission should disallow the same categories of expenses KU seeks to be recovered in rates in this case.

## V. Conclusion

For the reasons mentioned above, LFUCG recommends that the Commission (1) maintain the amount of the Basic Service Charge at \$12.25; (2) disallow KU’s proposal to modify the Basic Service Charge to a daily rate, as opposed to a monthly rate; (3) reject KU’s attempt to split energy charges into infrastructure and variable components; and (4) disallow for rate recovery certain of the Company’s 401(k) contributions for employees who are also participants in the Company’s defined benefit plans.

Respectfully submitted,



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<sup>16</sup> *Kentucky Utils.*, Case No. 2016-00370 at 14 (Ky. PSC June 22, 2017).

<sup>17</sup> *Id.*

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CERTIFICATE OF SERVICE

In accordance with 807 KAR 5:001, Section 8, I certify that the April 1, 2019, electronic filing of this document is a true and accurate copy of the same document being filed in paper medium; that the electronic filing will be transmitted to the Commission on April 1, 2019; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; and that an original paper medium of the filing will be delivered to the Commission within two business days.



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Counsel for LFUCG