

**COMMONWEALTH OF KENTUCKY**

**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

**ELECTRONIC CONSIDERATION OF THE )  
IMPLEMENTATION OF THE NET ) CASE NO. 2019-00256  
METERING ACT )**

**COMMENTS OF KENTUCKY UTILITIES COMPANY  
AND LOUISVILLE GAS AND ELECTRIC COMPANY**

Kentucky Utilities Company (“KU”) and Louisville Gas and Electric Company (“LG&E”) (collectively, the “Companies”) respectfully submit these comments in response to the Kentucky Public Service Commission’s (“Commission”) Order dated July 30, 2019 concerning the implementation of the Net Metering Act.<sup>1</sup> The Commission’s Order dated July 30, 2019 invites utilities and stakeholders to submit comments for consideration as the Commission develops a record and issues a report on issues of the implementation of the Net Metering Act as they apply to individual utilities.<sup>2</sup> The Companies appreciate the opportunity to provide comments in this important matter.

The Companies recognize that certain customers for multiple reasons want to install an eligible electric generating facility<sup>3</sup> on their premise for the purpose of supplying all or part of their electricity requirements. Serving almost one million customers across the Commonwealth, KU and LG&E utilize power from a generation system consisting of coal-fired generating stations, a natural gas combined-cycle generating unit, natural-gas-fired combustion turbines, two hydroelectric generating stations, and solar generating plants. Regardless of the source of

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<sup>1</sup> Senate Bill 100, An Act Related to Net Metering was signed into law on March 26, 2019, and amends certain sections of KRS 278.465 through KRS 278.467.

<sup>2</sup> On September 5, 2019, the Commission by order extended the time for filing written comments to no later than October 15, 2019 and rescheduled the public comment hearing to November 13, 2019.

<sup>3</sup> KRS 278.465(2)

generation, all economic generation choices must be based on objective costs and data, and operate consistently to maintain the electric grid that delivers reliable energy to all customers at all times. The source of generation does not create an exception to the Commission’s long-standing, time-proven, objective, least-cost resource requirement.<sup>4</sup>

This year, the General Assembly took an important step by reforming the outdated net metering policies, ending the subsidies, and focusing on the cost-based payment for the energy put back onto the grid by the customer-generator. Charged by the General Assembly to determine the payment for energy put back onto the grid, the Commission now has the express power to ensure a sustainable future for customer-generators that benefits all electricity customers. Deviations or variances from the least-cost requirement for policy reasons will create subsidies and higher rates. Over ten years ago, the objective of the original net metering law was to incentivize early adopters, not create subsidies from one group of customers to another that would not go away.

#### I. Brief Overview of Net Metering and Senate Bill 100

Kentucky law currently provides that customer-generators are to be credited as kilowatt-hour denominated electricity credits. This process, known as net metering, is available to all customers of each retail electric supplier and means measuring the difference between the

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<sup>4</sup> As set forth in the preamble to the Commission’s IRP regulation, 807 KAR 5:058, electric utilities must provide “load forecasts and resource plans . . . to meet future demand with an adequate and reliable supply of electricity *at the lowest possible cost for all customers.*” (emphasis added). See also 807 KAR 5:058, Section 8(1), (4). The Commission has long held to a least-cost standard in determining whether to approve supply-side resources. In Case No. 350, the Commission stated: “A utility can purchase power *if that is the least cost option.* On the other hand, a utility can build for its own use *if that is the least cost option.*” *In re Energy Policy Act of 1992*, Case No. 350, Order at 3 (Ky. PSC Oct. 25, 1993) (emphasis added). See also *A review of the Adequacy of Kentucky’s Generation Capacity and Transmission System*, Case No. 387, Order at 36 (Ky. PSC Dec. 20, 2001) (“ULH&P will soon need to address the issue of meeting its post-2006 power requirements in the most reasonable, least costly manner.”); *General Adjustment of Electric Rates of Kentucky Utilities Company*, Case No. 8624, Order at 54 (Ky. PSC Mar. 18, 1983) (“These concerns are the heart of the Commission’s belief that it has an obligation to pursue, for Kentuckians, an energy strategy that represents least cost consistent with appropriate reliability . . .”).

electricity supplied by the electric grid and the electricity generated by an eligible customer-generator that is fed-back to the electric grid over a billing period.

Effective January 1, 2020, “net metering” is defined as “the difference between the: (a) Dollar value of all electricity generated by an eligible customer-generator that is fed back to the electric grid over a billing period and priced as prescribed in KRS 278.466; and (b) Dollar value of all electricity consumed by the eligible customer-generator over the same billing period and priced using the applicable tariff of the retail electric supplier.”<sup>5</sup>

In the course of delegating the authority to the Commission to establish the “dollar value” or set the rate to be used for the compensation of customer-generators,<sup>6</sup> the General Assembly also established three essential rules for the billing and pricing of net electricity effective January 1, 2020. First, a retail electric supplier serving an eligible customer-generator is to compensate that customer for all electricity produced by the customer’s eligible generating facility that flows to the retail electric supplier, as measured by the standard kilowatt-hour metering.<sup>7</sup> Second, for each billing period, compensation is to be provided to a customer-generator in the form of a dollar-dominated bill credit, which may be rolled over to the next bill if the credit exceeds the current bill.<sup>8</sup> Third, and most importantly, “each retail electric supplier shall be entitled to implement rates to recover from its eligible customer-generators all costs necessary to serve its eligible customer-generators, including but not limited to fixed and demand-based costs, without regard for the rate structure for customers who are not eligible customer-generators.”<sup>9</sup>

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<sup>5</sup> KRS 278.465(4).

<sup>6</sup> KRS 278.466(3).

<sup>7</sup> KRS 278.466(2), (3).

<sup>8</sup> KRS 278.466(4).

<sup>9</sup> KRS 278.466(5).

In updating the Net Metering Act, the General Assembly likewise repealed the noteworthy requirement that “[e]ach net metering contract or tariff be identical, with respect to energy rates, rate structure, and monthly charges, to the contract or tariff to which the same customer would be assigned if the customer were not an eligible customer-generator.”<sup>10</sup> In doing so, the General Assembly recognized a need for each retail electric supplier to have the legal right to recover from its eligible customer-generators “all costs necessary to serve its eligible customer-generators” and “without regard for the rate structure for customers who are not eligible customer-generators.”<sup>11</sup>

The changes to the Net Metering Act become effective January 1, 2020. Eligible customer-generating facilities installed before the effective date of the initial net metering order issued by the Commission pursuant to KRS 278.466(3) will continue to receive the kWh credit for electricity sent to the retail electric supplier.<sup>12</sup> The kWh energy credit will remain in effect for a twenty-five year period, regardless of whether premises are sold or conveyed during that time period. The Companies already serve a number of facilities on their existing net metering tariffs, and will continue to serve these customers in the same way for the next twenty-five years.<sup>13</sup>

#### I. Developing Cost-Based Rates

The General Assembly delegated to the Commission the ratemaking authority to set rates for the payment for energy put back onto the grid which will be paid for by the utility’s other retail customers. The Commission should continue to adhere to its well-established position that

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<sup>10</sup> 19 RS SB 100/GA amending KRS 278.466.

<sup>11</sup> KRS 278.466(5).

<sup>12</sup> KRS 278.466(6).

<sup>13</sup> The Commission can track the status of the premises by requiring the retail electric supplier to report on their status as reasonably requested by the Commission. KRS 278.230(3).

customers should not subsidize other customers' choices.<sup>14</sup> Any rate short of a cost-based rate does just that by creating subsidies and sending false price signals to customers. Cost-based rates avoid economic inefficiencies and provide greater transparency to customers.

The Commission has not considered externalities in evaluating the cost-effectiveness of Demand Side Management programs and reiterated that it “has no jurisdiction over environmental impacts, health, or other non-energy factors that do not affect rates or service.”<sup>15</sup> Considering these additional factors would conflict with the long-standing and proven ratemaking requirement that considers only known and measurable costs, create long-term customer cost recovery burdens, and increase customer rates. The Commission should not depart from this important requirement in developing the cost-based rates for the electricity put back onto the grid by customer-generators.

The Companies' Commission-approved Solar Share Program (“SSP”) provides an example for a customer-generator's electricity that flows to the retail electric supplier. SSP puts power onto the grid in the same way the customer-generator does using the net metering process, albeit on a large scale. Both sources generate power which cannot be controlled and create intermittent power flows. The value of power, regardless of source, must reflect these two physical facts and because of these two attributes, has less value than other generation sources which consistently provide power upon demand. To calculate the monthly SSP energy credit,

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<sup>14</sup> *Electronic Investigation of the Reasonableness of the Demand Side Management Programs and Rates of Kentucky Power Company*, Case No. 2017-00097, Order at 2-3 (Ky. PSC Feb. 23, 2017); *Electronic Application of Duke Energy Kentucky, Inc. to Amend Its Demand Side Management Programs*, Case No. 2016-00289, Order at 15 (Ky. PSC Jan. 24, 2017).

<sup>15</sup> *Electronic Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Review, Modification, and Continuation of Certain Existing Demand-Side Management and Energy Efficiency Programs*, Case No. 2017-00441, Order at 28 (Ky. PSC Oct. 5, 2018); see also *The 2011 Joint Integrated Resource Plan of Louisville Gas and Electric Company and Kentucky Utilities Company*, Case No. 2011-00140, Order at 4 (Ky. PSC July 8, 2011) (“[I]ssues of environmental externalities, such as air and water pollution from generating electricity and mining fuel to supply the generating plants, are all issues beyond the scope of the Commission's jurisdiction.”).

the Companies use a Commission-approved net billing compensation mechanism, which compares a subscribing customer's share of energy from the SSP facilities to the customer's energy usage for each fifteen-minute interval.<sup>16</sup> For each interval, if the customer's share of energy from the SSP facilities is less than the customer's energy consumption, LG&E or KU bills the customer for its net usage at the energy charge set forth in the rate schedule under which the customer takes service. When energy from the customer's share of the SSP facilities exceeds the customer's energy consumption for the interval, the customer will receive a bill credit per kWh equal to the non-time differentiated rate set forth in Standard Rate Rider SQF, which is based on the Companies' estimated avoided cost for such generation. The Commission may consider this established methodology when determining the value of the same kind of energy put back onto the grid by net metering customer-generators. In doing so, the Commission will create a level playing field for energy put back onto the grid by net metering customer-generators and the Companies' SSP under which customers can purchase electric energy from solar panels jointly owned and maintained by the Companies.

In developing the inputs for this cost-based pricing methodology, the Commission should consider that the energy put back onto the grid by net metering customer-generators is not dispatchable or under the control of the retail electric supplier. As such it is not a capacity resource that can be relied upon at all times by the retail electric supplier but is only providing as-available non-firm energy to the grid. The amount of energy provided to the grid is a function of the load profile of the customer and the available generation from the customer's generator; both of which are not known with any certainty at any point in time for the retail electric

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<sup>16</sup> *Electronic Application of Kentucky Utilities Company for an Adjustment of Its Electric Rates*, Case No. 2018-00294, Order at Appendix B, Page 7 of 8 (Ky. PSC Apr. 30, 2019); *Electronic Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Rates*, Case No. 2018-00294, Order at Appendix B, Page 8 of 11 (Ky. PSC Apr. 30, 2019).

supplier. The utilities' avoided cost is the incremental cost of electric energy which, but for the energy put back onto the grid from the customer-generator or qualified facility, such electric supplier would generate itself or purchase from another source.

Additionally, in establishing rates to recover all costs necessary to serve the eligible customer-generators, the Commission should also consider the increased costs utilities must incur to serve the customer-generators. Given its intermittent nature, to ensure the safe and reliable receipt of such electricity onto its grid, electric utilities will need to perform system studies and potentially enhance their distribution systems to safely manage and control the flow of such power. Utilities will incur costs to bolster their telemetry and frequency response tools to accommodate the intermittent output of grid-tied eligible customer-generating systems. And utilities will have to invest additional capital to modernize the grid and grid support system when the penetration levels of eligible customer generation increase.

Utilities also must invest in their distribution systems to avoid overloading circuits, causing voltage regulation or power quality problems, or jeopardizing the safety of the public or utility employees. However, if the payment for energy put back onto the grid unfairly subsidizes customer-generators, a utility's remaining customers will pay higher rates for these costs.

## II. Interconnection Guidelines

Another factor that the Commission should consider is the need for updated interconnection guidelines. Interconnected eligible customer generation transforms the distribution system from a one-way delivery mode into a complex two-way network for which electricity flows need to be carefully monitored and balanced and proper system protection applied. Retail electric suppliers need to make sure that interconnection guidelines are updated to reflect new technology.

III. Conclusion

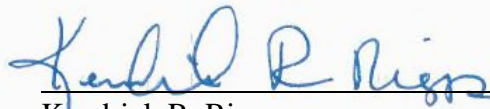
As always, the Companies' objective is to provide safe and reliable service to their customers at reasonable rates. All renewable generation choices, regardless of source, must be objectively evaluated based on cost. In doing so, the Commission will create a level playing field regardless of the source of energy.

For these reasons, the Companies urge the Commission to adopt cost-based rates for determining the dollar value of all electricity generated by eligible customer-generators that is put back onto the electric grid to serve the energy needs of other customers.

**WHEREFORE**, Kentucky Utilities Company and Louisville Gas and Electric Company respectfully request the Commission consider these comments.

Dated: October 15, 2019

Respectfully submitted,



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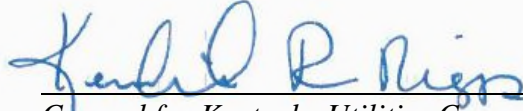
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**CERTIFICATE OF SERVICE**

In accordance with 807 KAR 5:001, Section 8, I certify that Kentucky Utilities Company's and Louisville Gas and Electric Company's October 15, 2019 electronic filing of these Comments is a true and accurate copy of the same document being filed in paper medium; that the electronic filing has been transmitted to the Commission on October 15, 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 these Comments will be delivered to the Commission within two business days.

A handwritten signature in blue ink, reading "Kenneth R. Nicks", is written over a horizontal line.

*Counsel for Kentucky Utilities Company  
and Louisville Gas and Electric Company*