COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF: ELECTRONIC APPLICATION OF KENTUCKY UTILITIES COMPANY FOR AN ADJUSTMENT OF ITS ELECTRIC RATES, A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY TO DEPLOY ADVANCED METERING INFRASTRUCTURE, APPROVAL OF CERTAIN REGULATORY AND ACCOUNTING TREATMENTS, AND ESTABLISHMENT OF A ONE-YEAR SURCREDIT.	:	CASE NO. 2020-00349
IN THE MATTER OF: ELECTRONIC APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN ADJUSTMENT OF ITS ELECTRIC AND GAS RATES, A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY TO DEPLOY ADVANCED METERING INFRASTRUCTURE, APPROVAL OF CERTAIN REGULATORY AND ACCOUNTING TREATMENTS, AND ESTABLISHMENT OF A ONE-YEAR SURCREDIT.	:	CASE NO. 2020-00350

JOINT POST-HEARING BRIEF OF THE KENTUCKY ATTORNEY GENERAL AND THE KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

The Attorney General of the Commonwealth of Kentucky, through his Office of Rate Intervention ("Attorney General") and Kentucky Industrial Utility Customers, Inc. ("KIUC") hereinafter referred to jointly as "AG/KIUC" submit this Post-Hearing Brief in support of the Stipulation and Recommendation filed April 19, 2021 ("Stipulation") before the Kentucky Public Service Commission ("Commission").

The members of KIUC who are participating in this proceeding are:

AAK USA K1/K2, LLC	Ford Motor Company
Air Liquide Industrial U.S. LP	Ingevity
Alliance Coal, LLC	JBS USA (Swift Pork Co.)
Carbide Industries LLC	North American Stainless
Corning, Inc.	Chemours Louisville Works
Dow Silicones Corporation	Toyota Motor Manufacturing, Kentucky, Inc.

These KIUC companies comprise approximately 14% of all retail electric sales of Kentucky Utilities Company ("KU") and 6.5% of all retail electric sales of Louisville Gas & Electric ("LG&E").

AG/KIUC understand that the Commission has an independent statutory obligation to ensure that rates are fair, just and reasonable, and that a Stipulation, even a unanimous one, cannot simply be approved without critical inquiry. But AG/KIUC recommend that the Commission not undertake a *de novo* review of each individual aspect of the Stipulation. Instead, the Stipulation should be considered as a comprehensive package. If it produces rates that are within the zone of reasonableness, then it should be approved, even if the Commission might have reached a different conclusion on an individual issue in a litigated case.

Retired Asset Recovery Rider

The unanimous Stipulation provides many benefits to Kentucky consumers and to the Kentucky economy in general. One of the most gratifying to AG/KIUC is that the Stipulation adopts their litigation recommendation to establish a Retired Asset Recovery Rider ("RAR").

Absent the RAR depreciation expense on Mill Creek Unit 1, Mill Creek Unit 2, and Brown Unit 3 would have increased significantly.[1]

The RAR concept is modeled after Kentucky Power's Big Sandy Decommissioning Rider. The RAR recovers Retirement Costs, defined as the remaining net book costs, materials, and supplies that cannot be used at other plants, as well as decommissioning costs net of related accumulated deferred income taxes ("ADIT"), including the tax benefits from tax losses, in an orderly and systematic way. Under the RAR, the Companies recover Retirement Costs and ADIT on a levelized basis over ten years, including a weighted average cost of capital carrying cost. Levelized recovery (like a mortgage payment), as opposed to a declining rate base approach, reduces the cost to customers in the early years and provides predictable and stable rates.

Importantly, the RAR includes a credit for the depreciation expense and rate of return component for each retired unit embedded in base rates at that time to prevent the double recovery of such costs.[2] This base-current approach is modeled on the Companies' Environmental Cost Recovery ("ECR") surcharges.[3] The RAR will use the Group 1 and Group 2 methodology for cost recovery used in the Companies' ECRs to ensure a fair, just, and reasonable cost recovery among the Companies' customer classes.[4]

It is no secret that because of heightened concern over CO_2, Kentucky's predominately coal-fired generation fleet is at risk. The low energy costs that have fostered Kentucky's energy-intensive economy of steel, aluminum, automotive, and chemical products will be challenged as coal plants are retired and replacement generation is required, negatively impacting Kentucky's

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[1] Direct Testimony of Lane Kollen ("Kollen Testimony") at 8, *et. seq.*

[2] Stipulation Testimony of Kent W. Blake ("Blake Stipulation Testimony") at 18.

[3] Kollen Testimony at 27:18-23, and 28:1-18.

[4] Blake Stipulation Testimony at 19.

ability to attract and retain these key industrial investments. Paying to retire the old power plants while at the same time paying for new replacement generation that maintains Kentucky's comparative advantage in this area is the challenge. The RAR can help with this endeavor and will be an important regulatory tool for the Commission in the future.

Return on Equity and Four-Year Stay-Out

The 9.55% return on equity ("ROE") contained in the Stipulation is justified because of the efficient management of the Companies and their commitment to a four-year base rate case stay-out. Under the Stipulation, absent extraordinary circumstances, the Companies cannot file applications for new base rates to take effect before July 1, 2025. This contrasts with their decade-old past practice of filing rate cases every two years. The rate stability provided by a four-year stay-out is important and could not result from a litigated proceeding.

Revenue Requirements

The electric revenue requirement adjustments for depreciation, ROE, updated pension and Other Post-Employment Benefits ("OPEB") expense and updated long-term debt rate reduce KU's rate increase by 32% (from $169.9 million to $115.9 million). And for LG&E electric, the reduction is 40% (from $128.4 million to $77.3 million). LG&E's gas rate increase will be reduced by 27%, from $33 million to $24.2 million. While the Stipulation did not adopt many of the revenue requirement reductions advocated by AG/KIUC, a 27% to 40% reduction from the filed cases is significant.

The rate increases resulting from the Stipulation are reasonable. The system average rate increases will be: 7.1% for KU; 6.8% for LG&E electric; and 6.75% for LG&E gas. Over the four-

year stay-out period, the increases will average about 1.7% per year, which is less than the rate of inflation.

Advanced Metering Infrastructure

The Advanced Metering Infrastructure ("AMI") ratemaking issue is an important part of this case and was resolved favorably in the Stipulation. The Companies proposed an innovative ratemaking proposal for their investment in AMI. The Companies will use deferral accounting to minimize or eliminate any combined revenue requirement impact of the deployment of AMI.

AG witness Alverez made several AMI recommendations in his testimony which were adopted in the Stipulation, including: (a) utilizing the Green Button Download My Data, and Green Button Connect My Data Standards;[5] (b) a universal Peak-Time Rebate program;[6] and certain reporting requirements.[7] In AG/KIUC's opinion, the treatment of AMI in the Stipulation may become a model for the rest of the nation to follow.

Lighting Issues

The Stipulation includes several lighting provisions that are important to the cities of Louisville and Lexington. The Companies agreed to a reduced one-time LED conversion fee of $260 to help Louisville convert its streetlights in the near term. The Companies also agreed to replace the current 100W HPS Cobra lighting offering and to conduct a competitive bidding process for street lighting fixtures every five years.

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[5] Direct Testimony of Paul J. Alvarez at 25.

[6] Id. at 20-23.

[7] Id. at 33-34.

Coal Mining Incentive Rate

Because coal mining operations in Kentucky are facing significant economic challenges, the Companies have agreed to work with their coal mining customers on economic development options that provide a contribution to fixed costs, are flexible, and are time limited. Any agreed-upon economic development rate would ultimately need Commission approval.

KIUC member Alliance Coal operates four major coal mines in the KU service territory: Hopkins County Coal, Roberts Brothers, Warrior Mining, and River View. These mines take service under KU's RTS and TODP rates. The three largest mines take advantage of KU's Curtailable Service Rider ("CSR") to receive an interruptible bill credit in exchange for a lower quality service. Given the very depressed conditions in mining, Alliance is comfortable with the risk of production shutdowns because of emergency or economic conditions. Meeting a booming demand is not a current concern. Any change to the CSR would be damaging and could accelerate additional mine closures.

Shareholder Contributions

The Companies currently make annual shareholder contributions to low-income groups of $1.45 million. This amount will be increased by the same percentage that base rates are increased. These shareholder contributions could not have been required in a litigated case.

Cost Allocation

The issue of cost allocation was debated thoroughly during the settlement process, with all rate classes represented and all parties ultimately agreeing that the recommended methodology is reasonable. The settlement terms regarding cost allocation are grounded in four general principles: 1) the subsidy being received by the Residential Class will not be reduced and

their rates will generally go up at the system average increase; 2) the subsidy being paid by the industrial rate schedules should be eliminated, resulting in below average increases for KU Rate FLS and LG&E Rates TODP and RTS; 3) the rates under the lighting rate schedules generally will not be increased; and 4) the remaining commercial and industrial rates will pay above average increases.

1. Residential Rates

The Residential class subsidy is maintained in the settlement in order to assist customers in very challenging economic times.

As shown in witness Seelye's Rebuttal Testimony, every cost-of-service study in this record demonstrates that the KU Residential Class is being subsidized.[8] For example, under the 6 Coincident Peak ("CP") cost-of-service method, the KU Residential Class is currently receiving a subsidy of $90.7 million.[9] Yet under the Stipulation, the KU Residential Class will receive the system average increase of 7.17%.

Similarly, every cost-of-service study in this record shows that the LG&E Residential Class is heavily subsidized.[10] Under the 6 CP cost-of-service method, the LG&E Residential Class is receiving a subsidy of $70.7 million.[11] In fact, the Companies' Loss of Load Probability ("LOLP") cost-of-service study shows that LG&E is barely making any profit at all on its residential sales.[12] But under the Stipulation the increase to the Residential Class (7.21%) is only slightly higher than the system average increase (6.96%).

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[8] Rebuttal Testimony of William Steven Seelye ("Seelye Rebuttal") at 79, Table 4.
[9] Direct Testimony of Stephen J. Baron ("Baron Testimony") at 27.
[10] Seelye Rebuttal at 80, Table 5.
[11] Baron Testimony at 26.
[12] Seelye Rebuttal at 80, Table 5.

2. Industrial Rates That Are Paying A Subsidy

The second cost allocation principle embedded in the Stipulation is that the increase to the industrial rates should remove the subsidy paid by those customers based on the 6 CP cost-of-service results.[13] No party supported use of a 12 CP cost-of-service results for purposes of cost allocation nor would use of the 12 CP methodology be appropriate since that methodology is not used for system planning purposes.[14] Accordingly, based on cost-of-service and economic competitiveness considerations, there will be below average increases for KU Rate FLS and LG&E Rates TODP and RTS.

The only KU industrial rate paying a subsidy under the 6 CP study is Fluctuating Load Service ("FLS").[15] The Stipulation increases FLS by 5.01% compared to the system average increase of 7.17% in order to remove a subsidy of $710,679. The FLS rate is also extremely unique.[16] That rate has one customer and was designed to serve the electric arc furnace load of North American Stainless ("NAS"). NAS is the largest stainless-steel producer outside of China. Its investment in Northern Kentucky exceeds $3.5 Billion. Because the 120 MW NAS electric arc furnace can be turned on and off very quickly, KU uses NAS as a system reliability resource. Under the FLS rate, KU can interrupt 95% of the NAS electric arc furnace load upon 5 minutes notice for a period of not more than 10 minutes. At the hearing, this was referred to as "*pushing the NAS button*." From January 1, 2018 to January 11, 2021, NAS was physically interrupted 92 times under this provision for voltage and frequency control.[17] The benefit that NAS provides to

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[13] Baron Testimony at 32; Seelye Rebuttal at 101 ("*the Companies' 6 CP cost-of-service, which is supported by the KIUC, could also be used as a reasonable guide for allocating the revenue increases and developing rate design.")*.

[14] Hearing Tr. (April 27, 2021) at 10:26:34 – 10:27:10.

[15] Baron Testimony at 31.

[16] Hearing Tr. (April 27, 2021) at 10:34:58.

[17] Baron Testimony at 24, Response to AG-KIUC 1-185.

the system as a frequently used 120 MW system reliability resource (92 physical interruptions over three years) was not factored into any cost-of-service analysis. If it were, then the subsidy paid by NAS would be even larger.[18]

KU's other industrial rates — TODP and RTS — are not currently paying a subsidy. Those rates will pay above average increases of 7.38% and 7.37%. As noted previously, KU's residential customers will only pay the system average increase of 7.17%. This means that all industrial customers, except one, will get a larger increase than the residential class. The non-electric arc furnace load of NAS served on RTS (which is bigger than NAS' electric arc furnace load served under FLS), the load of Alliance Coal, and the load of Toyota will all pay a larger percentage increase than the average residential customer.

Two LG&E industrial rate schedules pay a subsidy under the 6 CP cost-of-service study — RTS and TODP.[19] Removing the $2.7 million RTS subsidy and the $7.5 million TODP subsidy results in those rates receiving increases of 3.64% and 2.46%, respectively. The new RTS and TODP rates will now be fully cost-based.

Eligibility for LG&E's rates is based on voltage and size. So while all industrial customers take service under either RTS or TODP (including Ford, Chemours (formerly DuPont) and Carbide Industries), not all customers on those rates are industrial. For example, Jefferson County Medical Center, other large hospitals, UPS, and Walmart all have facilities served on the RTS or TODP rates.

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[18] Baron Testimony at 24-25.
[19] Baron Testimony at 30.

Why should the industrial rates that are paying a subsidy be set at cost when there are many commercial rates paying an even greater subsidy? The answer is that the cost allocation process must take into account public policy and economic competitiveness considerations.[20] Kentucky's energy-intensive industries like Ford and NAS should be treated differently than Burger King and McDonalds. Ford and NAS compete regionally, nationally, and internationally. The price of electricity is critical to their success or failure. KRS 278.030(3) expressly provides that the Commission may consider the "*nature*" and "*purpose*" of electricity usage when setting rates. The nature and purpose of electricity usage by manufacturers is to convert raw materials into finished products.

On the other hand, commercial customers compete locally. As long as Burger King and McDonalds both pay the same price for electricity, neither has a competitive advantage. Commercial customers are also people-based. They locate where their customers are, regardless of the price of electricity.[21] This explains why there are commercial businesses in California, Alaska, and Hawaii buying electricity at 2-3 times the price charged by the Companies, but those states have very little to no energy-intensive manufacturers.[22]

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[20] Id. at 32-38.

[21] Seelye Rebuttal at 109 ("*Small and medium-size customers are often located in a particular area because that is where their customers are located. A convenience store, for example, will locate its operations in an area because its customers are located in that area.*").

[22] Hearing Tr. (April 27, 2021) at 17:04:43. ("*…large industrial loads have a much bigger choice as far as where they locate their operations than say a commercial operation or any type of customer that would typically take service under TODS, which would be a box store….A box store, they locate their operation around people. They don't locate their operation around input resources…Large industrials locate largely for input resources, labor resources…things like electric energy, like supply, availability of rail to bring in materials…for steel mills…they typically will operate in states with highly reliable energy resources, number 1, number 2, low cost energy resources…energy is a very important resource, much more important for industrial than say for commercial customers…).*

Removing the industrial subsidy from rates was recommended by KIUC witness Baron.[23] Mr. Baron's recommendation relied on the importance of electricity to the competitiveness of Kentucky's manufacturing base. On October 20, 2020, Governor Beshear stated that we must "*recognize how profound an impact manufacturing has on Kentucky's economy, its communities and its families…Manufacturers in Kentucky employ about 260,000 people, full time.*"[24] Former Governor Bevin also had a goal to make Kentucky the "*manufacturing hub of excellence*" in the country. The importance of low electric rates to Kentucky's manufacturing base was strongly emphasized by witness Seelye as well.[25]

At the hearing, the concept of the job multiplier effect was discussed.[26] Toyota is a prime example of that concept. Before Toyota built its Georgetown facility, that area of Kentucky was economically under-developed. Now it is thriving and prosperous. The 8,000 plus men and women who work at Toyota Georgetown spend their money at thousands of commercial businesses that located in Central Kentucky to serve them. In addition, scores of satellite businesses, from manufacturers of wheels to windshields, have built plants in Kentucky to serve Toyota. Workers at those plants also support thousands of commercial establishments, from restaurants to hospitals to grocery stores. Hence, the job multiplier. It is amusing to note that 35 years ago Kentucky's $125 million economic development package to attract Toyota was controversial and considered by many to be wasteful.

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[23] Baron Testimony at 29.

[24] Baron Testimony at 38.

[25] Seelye Rebuttal at 107-109; Hearing Tr. (April 27, 2021) at 11:52:13 ("*energy is extremely important for attracting large manufacturing customers*").

[26] Hearing Tr. (April 27, 2021) at 17:06:41 *("…the large industrial customers bring jobs to the State therefore it's very important for the economy…they will bring in high load factor load, typically, that can spread…fixed costs over a larger resource base…there's an economic multiplier associated with large industrial load, in other words, large industrial load brings jobs, which also brings more commerce to a region therefore there's multiplicative advantages that are realized for industrial load that other types of load don't bring.").*

Industrial jobs have no parasitic effect. New industrial jobs do not take away existing industrial jobs. Contrast that to a hypothetical Joe's Barber Shop. When Joe opened in small town Kentucky, there were five existing barber shops. With Joe, there are now six, which represents a 20% increase in barber jobs. But the number of haircuts did not increase. The same number of haircuts is simply divided among more barbers.

The Commission has recent experience with the job multiplier effect. In its Order approving Big Rivers' special contract with Nucor Steel Brandenburg the Commission cited the expected economic impact of Nucor's $1.35 Billion investment, explaining that "[c]*ompletion of the Nucor facility would bring 400 direct jobs with an annual average wage of $72,000, over 2,600 indirect jobs across Kentucky, $189 million in annual labor income, $14.3 million in annual state and local tax revenues, and approximately $360 million in annual gross domestic product once the new facility is fully operational."*[27] These statistics are why states compete fiercely to attract and maintain large energy-intensive manufacturers.

Industrial rates were treated fairly in the Stipulation and were developed based upon cost-of-service principles and a strong interest in maintaining industrial economic competitiveness in Kentucky. As Mr. Seelye testified, the Stipulation allocation represents a "balanced, reasonable approach" and should be approved as filed.[28]

3. Lighting Rates

The third cost allocation principle embedded in the Stipulation is that the lighting schedules will generally receive a zero increase. This principle was based on the cost-of-service study results. No KU lighting schedule received any rate increase and Outdoor Sports Lighting

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[27] Order, Case No. 2019-00365 (August 17, 2020) at 3.
[28] Hearing Tr. (April 27, 2021) at 10:30:06.

received a (5.91%) rate reduction. The only LG&E lighting schedule to receive any increase was Lighting Service and Restricted Lighting Service, and its increase was only about half of the system average (3.65% versus 6.96%). The lighting accounts of Louisville and Lexington did very well in the Stipulation, and that result is reasonable.

4. Commercial Rates And The Remaining Industrial Rates

The fourth cost allocation principle embedded in the Stipulation is that the residual revenue requirement was made up by having the remaining commercial and industrial schedules pay above average increases. The residual commercial and industrial increase for KU was 7.38% and for LG&E was 8% - 9.13%. These increases are significantly below KU's requested increase of 10.67% and LG&E's requested increase of 11.81%. Therefore, all business customers benefit from the Stipulation.

Rate Design

Rate design refers to how the increase will be recovered in individual rate schedules. For example, under the Stipulation there will be no increase to the residential customer charge and the entire increase will be recovered in the energy charge.[29]

For RTS and TODP, the full increase will be recovered in the demand component of rates, and the energy charges will be maintained at their current levels. This is consistent with the cost-based recommendation of Mr. Baron.[30] Recovering fixed or demand related costs through volumetric energy charges does not follow cost causation. It results in the high load factor customers on a particular rate schedule subsidizing the low load factor customers on that

[29] Stipulation, Paragraph 4.3.

[30] Baron Testimony at 39-45.

schedule. In his pre-settlement rebuttal testimony, Mr. Seelye did not object to KIUC's proposed rate design.[31]

The current LG&E energy charge of about $27/MWh is higher than LG&E's variable production costs of about $23/MWh.[32] Therefore, under the Stipulation, LG&E's current energy charge will more than cover all of its variable production costs. KU's current energy charge of $25-$26/MWh will also continue to cover its variable production costs of about $24-$25/MWh.[33] The Companies would not have agreed to this rate design if the energy charge was not recovering all variable production costs.

Putting the entire increase on demand promotes the high load factor utilization of the Companies' fixed assets, which is a sound policy that lowers costs for all consumers. Also, these rate cases were necessitated by increases to fixed costs like depreciation and rate base growth, which is properly recovered in demand charges. This case was not about fuel or variable O&M. Therefore, keeping the energy charges at their current levels for RTS and TODP follows cost causation.

Rate design is important to high load factor industrial customers who operate numerous shifts around-the-clock. Around-the-clock production is efficient and increases employment. Accordingly, this aspect of the Stipulation supports Kentucky's manufacturing base. Even though rate design is revenue-neutral to the Companies, they fully support this aspect of the Stipulation.

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[31] Seelye Rebuttal at 92-93.
[32] Baron Testimony at 43.
[33] Baron Testimony at 43.

Net Metering

The issues of: 1) how much customer generators should be paid for electricity fed back to the grid; and 2) how much customer generators should pay the utility for the fixed and demand costs incurred to serve them were carved-out of the settlement. On those issues, the Commission should adopt the Companies' proposals.

1. Customer Generators Must Only Be Paid The Dollar Value Of Electricity Fed Back To The Grid

KRS 278.465(4) provides that "*net metering*" is the difference between the "*dollar value of all electricity generated by an eligible customer-generator that is fed back to the electric grid…*" and the "*dollar value of all electricity consumed by the eligible customer-generator over the same billing period…*" The plain language of the term "*dollar value*" within the statute equates to fair market value. Dollar value is what the electricity is worth in currency or money. The statute therefore dictates that customer generators should only be paid the fair market value of the electricity they provide to the grid. The issue is how that "dollar value" or fair market value should be measured.

As the Companies explained, the "*dollar value*" of electricity fed back to the grid by customer generators is an avoided energy cost rate.[34] Customer generators should be paid the same as any other generator of electricity. Because they are only providing energy, customer generators should only be paid for energy. Anything more is a subsidy paid for by other ratepayers in violation of the statute.

[34] Seelye Rebuttal at 7, 18.

Customer-generators do not function as a capacity resource for the Companies at this time given that: 1) the Companies already have sufficient capacity through 2028; and 2) customer generators have no contractual commitment that can be relied on by the utility for system planning purposes. Should ice, snow or leaves prevent their solar panels from operating properly or should the panels break for whatever reason, customer generators have no obligation to maintain or fix the panels to restore service. Customer generators should be treated the same as any other generator of electricity, and they should not be compensated for a capacity product that they do not provide.

In 2028, when additional capacity may be needed, customer generators might qualify for a heavily discounted capacity payment. The 2028 capacity value should first be discounted as any merchant solar facility would be discounted. For example, currently in PJM the capacity value of each one MW of installed solar capacity is 400 Kw, a 60% discount. That capacity value should then be discounted again for self-usage since the energy generated by the rooftop panels is initially dedicated to the net metering customer itself with only the excess fed back to the grid. Finally, the lack of any contractual commitment to serve as a capacity resource when needed warrants further discounting. In 2028, the discounted capacity value would be very small.

AG/KIUC recognize that the Commission recently established an export rate for net metering customers in the Kentucky Power Company service territory that includes avoided capacity and transmission costs as well as *"societal benefits"* including carbon costs, and environmental compliance costs and job benefits.[35] Consequently, the Commission may resolve the export compensation issue similarly in this case. In that event, AG/KIUC's

[35] Order, Case No. 2020-00174 (May 14, 2021) at 25-40.

recommendations below regarding recovery of fixed and demand-based costs from net metering customers are rendered even more critical.

2. The Companies Are Entitled To Recover All Fixed And Demand Based Costs Necessary To Serve Customer-Generators

The Kentucky General Assembly expressly indicated that customer generators should pay all fixed and demand costs incurred by a utility to serve them. KRS 278.466(5) provides that "*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*."

For LG&E and KU residential customer-generators served under Tariff RS, demand costs are recovered in the residential energy charge, which consists of the Infrastructure Energy Charge and the Variable Energy Charge. Infrastructure Energy Charges are $0.06072/KWh and recover demand and fixed costs. Variable Energy Charges are $0.03206/KWh and recover fuel and variable O&M. Consequently, under the current rate design, by reducing his or her kWh usage, a customer-generator avoids paying its full demand and fixed infrastructure costs for each kWh of self-generated electricity. This has resulted in a subsidy to KU net metering customers of over $46,000 and a subsidy to LG&E net metering customers of over $95,000.[36]

As the implementation of rooftop solar grows, the lack of fixed cost recovery from net metering customers will become increasingly problematic.[37] Witness Seelye testified that if the 1% statutory cap on net metering is reached on both systems, the KU subsidy would increase to

[36] Hearing Tr. (April 27, 2021) at 14:28:56 (referring to Seelye Rebuttal, Ex. WSS-1).
[37] Id.

over $400,000 annually and the LG&E subsidy would increase to over $500,000 annually.[38] Accordingly, in the future, the Companies intend to exercise their right to recover the demand-related component currently embedded in the residential energy charge from net metering customers by changing the rate design for those customers.[39] AG/KIUC support such changes, which are grounded in the plain language of KRS 278.466(5) and which would avoid shifting fixed and demand costs to those residential customers who choose not to install rooftop solar or cannot afford to do so.[40]

CONCLUSION

The Companies should be commended for how effectively and fairly they conducted the settlement process. Crafting a unanimous Stipulation in three major rate cases with the Attorney General, KIUC, the federal government, the Cities of Louisville and Lexington, Kroger, Walmart, the Sierra Club, the Kentucky solar industry, and the low-income advocates was an accomplishment.

WHEREFORE, the Commission should approve the unanimous Stipulation without modification.

[38] Seelye Rebuttal, Ex. WSS-1.

[39] Seelye Rebuttal at 10 and 12. "[T]he Companies plan to continue to study implementing three-or-four-part rates to properly reflect the cost of serving customer-generation…"

[40] The Attorney General supports rate design that compensates the company for its costs such that customer-generators are not subsidized by the non-participants. This position should not be construed as support for the implementation of demand charges for the residential class generally.

Respectfully submitted,

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