

**COMMONWEALTH OF KENTUCKY
BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION**

The Electronic Application of Duke Energy	:	
Kentucky, Inc., for: 1) An Adjustment of the	:	
Electric Rates; 2) Approval of New Tariffs; 3)	:	
Approval of Accounting Practices to Establish	:	Case No. 2022-00372
Regulatory Assets and Liabilities; and 4) All	:	
Other Required Approvals and Relief.	:	

BRIEF OF THE KROGER CO.

The Kroger Co. (“Kroger”) submits this Brief in support of its recommendations with respect to Duke Energy Kentucky, Inc.’s (“Duke”) Application for an adjustment of its electric rates.

ARGUMENT

1. **Kroger Supports Duke’s Recommended 12 CP Class Cost-of-Service Allocation Methodology.**

According to Duke witness James Ziolkowski, the Company prepared three separate cost-of-service studies that use similar data but differ in the cost allocation methodologies that are used to allocate production-related costs. The three different allocation methodologies are: (1) the 12 CP method; (2) the Average and Excess (A&E) method;¹ and (3) the Production Stacking method.²

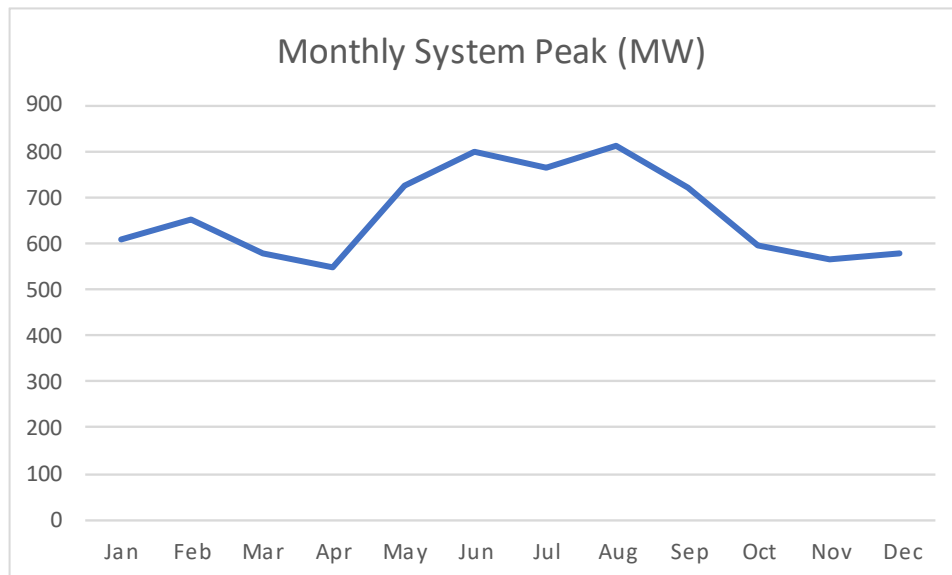
¹ The A&E method is an energy weighted method that allocates production costs based on a weighted average of a demand and an energy allocator. The demand allocator is based on the *excess* peak demand for a given rate class, where the *excess* demand is the difference between the peak demand and the average demand. The average demand is equal to the annual energy usage for each class divided by the number of hours in a year. The A&E allocation factor for each class is determined to be the weighted average of the excess demand allocator and the average demand, or energy, allocator. The weighting for the energy allocator is typically equal to the system load factor, while the weighting for the demand allocator is equal to one minus the system load factor. See Direct Testimony of Justin Bieber, pp. 6-7.

² The Production Stacking method allocates baseload plant costs using an energy allocator and peaker plant costs based on peak demands. Direct Testimony of James E. Ziolkowski, p. 5.

Kroger agrees with Mr. Ziolkowski’s recommendation that the Kentucky Public Service Commission (“Commission”) should approve Duke’s 12 CP method. The 12 CP method allocates production costs based on the class contribution to the 12 monthly system peaks. Each class is allocated costs based on the average of its load during each of the 12 monthly system peaks. This method is generally used when the monthly peaks lie within a narrow range.³

Kroger witness Justin Bieber independently examined the monthly system peaks for Duke’s system and the peaks generally fall within a narrow range, consistent with the use of a 12 CP method. Figure JB-1 below (from page 9 of Mr. Bieber’s Direct Testimony) provides an illustration of Duke’s monthly system peaks for the twelve months ending March 31, 2022, utilized in Duke’s cost of service study.

**Figure JB-1
Duke Monthly System Peaks⁴**



Given the Commission’s approval of the 12 CP method in Duke’s prior general rate case, and the nature of Duke’s system peaks, and the fact that rate subsidies will reasonably be

³ Direct Testimony of Justin Bieber, p. 6.

⁴ Duke Energy Kentucky Work Paper FR-16(7)(v) p. 10, Summary of Adjusted Rate Group Coincident and Non-Coincident kW Demands.

required regardless of which generation allocation methodology is used in order to avoid rate shock, Kroger recommends that the Commission approve Duke's proposed cost-of-service study utilizing a 12 CP production cost allocation methodology in this case.

2. Kroger Recommends That The Commission Order Duke To Study And Propose A Conjunctive Billing Demand Pilot Program In Its Next General Rate Case.

As described in Mr. Bieber's Direct Testimony a multi-site commercial rate aggregation program would allow eligible customers with multiple service locations to aggregate their demands for purposes of production and transmission billing. For a multi-site aggregation program, the billing demand is measured as the highest hourly demand occurring simultaneously across each of a customer's participating locations, thereby measuring billing demand for the totality of the customer's participating sites as if it were a single load for billing purposes. This is described as conjunctive demand billing and should only apply to a customer's generation and transmission service. The distribution portion of the bill should be calculated using demand billing determinants established separately at each location.⁵

This type of aggregation properly allows a multi-site customer to capture the diversity within its loads for billing purposes, specifically in the determination of billing demand. By treating the multiple loads of a single customer as a single entity for the purpose of measuring the amount of power and transmission service provided to the customer, the customer's load is treated in a manner that is comparable to the treatment of a single-site customer with the same aggregate load shape.⁶

Mechanically, a multi-site aggregated demand program would involve a slight increase in the production demand charge, which would be isolated to the particular class that was given an

⁵ Direct Testimony of Justin Bieber, pp. 14-15.

⁶ Id. p. 15.

aggregation option. There would be no impact on Duke's revenue requirement or to any customer outside of a participating customer class. As Duke witness James Ziolkowski noted at hearing, a multi-site aggregated demand program that is designed on a class-by-class basis *"would not change coincident peaks for a given class..."* and *"there would not be a cost shift between rate class."*⁷

There are also system benefits in that a multi-site aggregated demand program would allow a multi-site customer to capture the diversity within its loads for billing purposes, which would provide an incentive for customers to manage loads across their sites to reduce the peak demand they place on the system. Another potential benefit of conjunctive billing is that it could accelerate the adoption of electric vehicle charging stations. Under conjunctive billing, multiple electric vehicle charging stations that are operated by a common owner could benefit from the measurement of billing demand for generation based on the conjunctive, or aggregate, demand of multiple facilities, rather than a station-by-station method which would not recognize the diversity benefit of the aggregate loads that they place on the system.⁸

Consumers Energy in Michigan has such a rate, called the Aggregate Peak Demand Service Provision.⁹ This program is available to any customer with 7 accounts or more who desires to aggregate its On-Peak Billing Demands for power supply billing purposes. To be eligible, each account must have a minimum average On-Peak Billing Demand of 250 kW. The aggregated accounts are billed under the same rate schedule and service provisions that apply to the individual sites, with the aggregate maximum capacity to all customers limited to 200,000 kW.

⁷ TR 5/10/23 (9:24:00-9:24:30)

⁸ Direct Testimony of Justin Bieber, pp. 17-18.

⁹ See Sheet D-63.00 at https://www.michigan.gov/mpsc/-/media/Project/Websites/mpsc/consumer/rate-books/electric/consumers/Consumers_14_current.pdf?rev=37a47de06414494496e3fa0229ebc7c9&hash=42E956812826C0A14F71EE3D6EF97406#page=185.

Puget Sound Energy also has a pilot program, that was recently expanded, that allows eligible customers with multiple service locations to aggregate their demands for purposes of power and transmission billing.¹⁰

This is an ideal time to require Duke to study and propose a conjunctive billing demand pilot program in its next general rate case because Duke is already implementing rate design changes in this case that would facilitate a multi-site customer rate. In his Direct Testimony, Duke witness Bruce Sailors explained that the Company will create a separate demand charge for recovery of the cost-of-service study's distribution demand revenue component. According to Mr. Sailors, this modification to the Rate DT rate design recognizes the off-peak structure of the rate schedule and the potential in future years for customers to adopt electric vehicle off peak charging behavior.¹¹ Unbundling the distribution rates for Rate DT in this manner would facilitate a multi-site rate because it separates the recovery of production and transmission costs, which would be subject to aggregated demand billing, from the distribution costs which would not be billed based on aggregated demands. At hearing, Mr. Ziolkowski agreed that Mr. Sailors' proposal is a "*partial unbundling of rates...*" and "*begins to address*" Mr. Ziolkowski's concerns regarding the difficulty of unbundling rates for the purposes of implementing a conjunctive demand billing program that were expressed in Mr. Ziolkowski's Rebuttal Testimony.¹²

Kroger recommends that the Commission order the Company to study the feasibility of a multi-site aggregated demand commercial rate and propose a pilot program in its next rate case that would allow commercial customers to participate in a multi-site rate applicable to the portion of the demand charge associated with fixed *production* and *transmission* costs. A well-designed demand aggregation program places a customer with multiple locations on an equal

¹⁰ See sheet 26-B at https://www.pse.com/-/media/Project/PSE/Portal/Rate-documents/Electric/elec_sch_026.pdf?sc_lang=en.

¹¹ Direct Testimony of Bruce L. Sailors, p. 10.

¹² TR 5/10/23 (9:26:30-9:27:37). See also: Rebuttal Testimony of James E. Ziolkowski p. 5, lines 4-7.

footing with single-site customers, by charging participating multi-site customers for the amount of generation and transmission services that they actually use, thereby promoting equitable treatment of these customers.

Respectfully submitted,

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