#### 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)	)	Case No. 2024-00354
Approval of Accounting Practices to Establish	)	
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" or "Company") Application for an adjustment of its electric rates.

### **ARGUMENT**

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

Kroger supports Duke's recommended class cost-of-service study which utilizes a 12 coincident peak ("12 CP") methodology to allocate production-related costs. According to Duke's witness James Ziolkowski, the Company prepared three separate class cost-of-service studies that use similar data but differ in the cost allocation methodologies that are used to allocate the demand component of production-related costs. The three different allocation methodologies are: (1) the 12 CP method;<sup>1</sup> (2) the Average and Excess (A&E) method;<sup>2</sup> and (3) the Production Stacking method.<sup>3</sup>

<sup>&</sup>lt;sup>1</sup> The 12 CP methodology 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. Direct Testimony of Justin Bieber, p. 6.

<sup>&</sup>lt;sup>2</sup> 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. Direct Testimony of Justin Bieber, p. 6.

<sup>&</sup>lt;sup>3</sup> 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.

Mr. Ziolkowski recommends that the Kentucky Public Service Commission ("Commission") approve the 12 CP methodology to allocate production plant costs because the Company believes that the 12 CP methodology is an appropriate means to align capacity costs with the customer classes that are imposing those costs.

Kroger agrees with Mr. Ziolkowski that it would be reasonable to utilize the 12 CP methodology to allocate production plant. This method is appropriate in this case because Duke's monthly system peaks, which cause the need for generation capacity, lie within a narrow range throughout the year.

As discussed in his Direct Testimony, Kroger witness Justin Bieber examined the monthly system peaks for Duke's system and determined that the peaks generally fall within this narrow range. Mr. Bieber's Figure JB-1 provides an illustration of Duke's monthly system peaks for the twelve months ending May 31, 2024, utilized in Duke's cost-of-service study.



Duke Energy Kentucky Monthly System Peaks<sup>4</sup>

<sup>&</sup>lt;sup>4</sup> Duke Work Paper FR-16(7)(v) p. 10, Summary of Adjusted Rate Group Coincident and Non-Coincident kW Demands. Direct Testimony of Justin Bieber, p. 7.

The 12 CP methodology, which allocates production costs based on the class contribution to the 12 monthly system peaks based on the average of its load during each of the 12 monthly system peaks is generally used when the monthly peaks lie within a narrow range. As shown in Figure JB-1, Duke's monthly system peaks are relatively steady in each of the 12 months.

Given the Commission's approval of the 12 CP methodology in Duke's prior general rate case and the nature of Duke's system peaks, 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 and Duke Appear To Agree That The Alternative Proposal Contained In Duke's Rebuttal Testimony Represents A Reasonable Rate Design For Rate DS.

Through the pre-filed testimonies of Kroger and Duke and through cross-examination at the evidentiary hearing, Kroger and Duke appear to have found common ground on an appropriate rate design for Rate DS. <u>As explained below, Kroger and Duke have each stated that they can support the alternative proposed rate design explained on page 7 of Duke witness, Bruce Sailers' Rebuttal Testimony.</u>

Rate DS is applicable to customers with an average monthly demand less than 500 kW. The rate components for Rate DS include a customer charge, a demand charge, and energy charges. For Rate DS energy charges, Duke utilizes load factor blocking, with the Block 1 rate applied to the first 6,000 kWh, the Block 2 rate applied to the next 300 kWh , and Block 3 rate applied to all additional kWh.

As explained in Mr. Bieber's Direct Testimony, a load factor blocking rate design (also known as an "hours-use" rate design) is a somewhat complex rate design element that is not universally used by all utilities or even across all of Duke's demand-billed rate schedules. It is an energy charge that recovers both demand-related and energy-related costs within the same rate. This is achieved by setting the hours-use energy charge at a level greater than the base energy charge. The portion of the hours-use charge that exceeds the base energy charge serves a function similar to a demand charge and can be considered a mechanism for recovering demand-related costs. If properly structured, the remainder of the charge, equivalent to the base energy charge, should recover only energy-related costs.<sup>5</sup>

Duke's current Rate DS charges, including the load-factor blocking charges are shown below:<sup>6</sup>

Description	Units	Current Rate
Customer Charge		
Single Phase Service	month	\$15.00
Three Phase Service	month	\$30.00
Demand Charge		
First 15 kilowatts	kW	\$0.00
Additional kilowatts	kW	\$10.68
Energy Charge		
[Block 1] First 6,000 kWh	kWh	\$0.114788
[Block 2] Next 300 kWh/kW	kWh	\$0.074619
[Block 3] Additional kWh	kWh	\$0.063056

In its Direct Testimony, Duke proposed to maintain the current customer charges and recover the proposed increase for Rate DS through an approximately equal percentage increase to each of the demand and energy rate components.<sup>7</sup>

In Kroger's Direct Testimony, Mr. Bieber argued that Duke's proposed rate design for the DS rate schedule under-recovers demand-related charges while over-recovering energy-related

<sup>&</sup>lt;sup>5</sup> Direct Testimony of Justin Bieber, p. 14.

<sup>&</sup>lt;sup>6</sup> Direct Testimony of Justin Bieber, p. 13, Table JB-2.

<sup>7</sup> Direct Testimony of Bruce L. Sailers, Attachment BLS-1, page 1 of 17.

charges relative to the underlying cost-of-service.<sup>8</sup> The table below summarizes the Rate DS charges relative to costs by classification for Duke's as-filed rate design.<sup>9</sup>

Classification	Cost of Service	Revenue	<u>Revenue/</u> <u>Cost of Service</u>
Customer	\$2,844,515	\$3,464,841	121.8%
Demand	\$75,281,728	\$60,721,884	80.7%
Energy	\$66,572,665	\$83,920,419	126.1%
Total	\$144,698,908	\$148,107,143	102.4%

Duke Rate DS Classification of Revenues Relative to Cost At Duke Proposed Revenue Requirement

As can be seen in the table above, even after considering the demand-related revenues from both the demand charge and the Block 1 and Block 2 rate differentials, Duke's proposed rate design recovers just 80.7% of demand-related costs through demand-related charges while recovering 126.1% of energy-related costs through energy-related charges, based on the Company's cost-of-service study.<sup>10</sup> In Mr. Bieber's view, this is problematic because Duke proposes a demand charge that is below the cost of demand, it is going to seek to recover its class revenue requirement by over-recovering its costs in another area, most typically through levying an energy charge that is above unit energy costs, which is the case with Duke's proposal. For a given tariff class such as Rate DS, when demand charges are set below cost, and energy charges are set above cost, those customers with relatively higher load factors are required to subsidize the lower load factor customers within the class.<sup>11</sup>

In order to address this concern, Mr. Bieber's Direct Testimony recommended moderate adjustments to the DS rate design that move toward aligning rates with underlying costs while

<sup>&</sup>lt;sup>8</sup> Direct Testimony of Justin Bieber, p. 15-16.

<sup>&</sup>lt;sup>9</sup> Direct Testimony of Justin Bieber, p. 16, Table JB-3

<sup>&</sup>lt;sup>10</sup> Direct Testimony of Justin Bieber, p. 16.

<sup>&</sup>lt;sup>11</sup> Direct Testimony of Justin Bieber, p. 17.

also minimizing intra-class rate impacts that could result from a more significant shift to cost-

based rates at this time.12

In Rebuttal Testimony, Duke objected to Mr. Bieber's proposed design changes, but proposed an alternative, compromise rate design. Mr. Sailers stated on page 7 of his Rebuttal Testimony:

"Despite my objections above, if the Commission is inclined to move closer to Mr. Bieber's suggestions, the Company would recommend the Commission slightly increase the demand charge for kw greater than 15 and offset that revenue increase by reducing only the final energy block. The final energy block charge should not be reduced below the COSS energy component divided by the total class kWh. The Company does not recommend making changes to the first energy block and prefers changes not be made to the second energy block. These energy blocks assist in the collection of demand related revenues for the first 15 kW of demand for Rate DS customers and enable smaller, less sophisticated Rate DS customers to receive bills containing only customer and energy charges while collecting demand related revenues."<sup>13</sup>

At the evidentiary hearing, Mr. Sailers clarified that Duke supports the alternative rate

design for Rate DS described on page 7 of his Rebuttal Testimony. Mr. Sailers stated:

"We see [Mr. Bieber's] point... we generally agree that cost-based rates that's the way that we prefer. So if we increase the demand charge, that greater than 15 kW demand charge, we would have proposed to just increase that last block, that additional Kw block, and don't reduce it to something that's unreasonable; reduce it maybe to the average Kw charge that comes from the cost of service study - like the total energy revenue requirement divided by the total Kw from RPS."

Mr. Bieber likewise stated at the evidentiary hearing that Kroger supports the alternative

rate design described on page 7 of Mr. Sailers' Rebuttal Testimony.<sup>14</sup> Specifically, that the final

DS energy block charge be calculated by dividing the energy component from the cost-of-service

study by the total class kilowatt-hours. To maintain revenue neutrality, there would be a

corresponding increase to the demand charge applied to demand usage exceeding 15 kW. This

<sup>&</sup>lt;sup>12</sup> Direct Testimony of Justin Bieber, p. 18-19.

<sup>&</sup>lt;sup>13</sup> Rebuttal Testimony of Bruce L. Sailers, p. 7.

<sup>&</sup>lt;sup>14</sup> Video transcript. YouTube timestamp 4:43:50-4:45:50 Available at:

https://www.youtube.com/watch?v=vFG2uMKe5Gc&t=18454s

approach would satisfy Kroger's concerns regarding an over-collection of demand-related costs through energy charges.

This compromise position reflects a cost-based difference while providing gradual movements towards cost-based rates. It is not a full movement to cost-based rates in this case. It makes a *gradual* movement towards aligning rates with cost causation and reduces, but does not eliminate the existing *intra*-class subsidy. By gradually reducing this *intra*-class subsidy, lower-load-factor customers will experience slightly greater rate increases than higher-load-factor customers. This is a reasonable result because it strikes a balance between two important rate-making principles, improving the alignment between rates and the underlying cost components while employing gradualism.

Kroger, therefore, recommends that the Commission issue an order approving the <u>alternative approach</u> explained on page 7 of Mr. Sailers' Rebuttal Testimony. Both Duke and Kroger have stated that they support this compromise position, and no other party has opposed this proposal.

Respectfully submitted,

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