RECEIVED
FEB 24 2010
PUBLIC SERVICE COMMISSION

Mr. David Armstrong, Chairman
Kentucky Public Service Commission
P.O. Box 615, 211 Sower Boulevard, Frankfort, Kentucky 40602-0615

Hello Mr. Armstrong,

I am writing in response to the recently-filed application of the LG&E Company to increase rates. Like many individuals, I am not in the position to absorb a rate increase and I feel that it is important for me to express my discontent.

While I understand that, at certain times, a rate increase is necessary, I also understand the nature of publicly-regulated utility. Given the methodology by which rates are set in the United States, investor-owned regulated utilities have an incentive to over-invest in capital (this is known as the Averch-Johnson Effect); such assets add to the utility's rate base, and, given that the return to investors is based upon such assets, the incentive is to over-invest in certain capital investments (Trimble County 2, which is scheduled to come online this summer) is a perfect example.

In the January 29th Courier Journal article that announced the rate increase, Mr. Stafferi, Chairman and CEO of EOn US, stated that:

"We are fortunate to have some of the lowest rates in the country and even with this proposed increase, our rates will still be lower than six of the seven states surrounding Kentucky."

What Mr. Stafferi fails to point out is the fact that the medium income in Kentucky is among the lowest in the nation (47th according to the U.S. Census Bureau, 2007) and, is only slightly higher than that of the state of West Virginia, whose electric rates are lower than those in Kentucky. Clearly, Mr. Stafferi believes that those customers who are served by EOn US are stupid enough to fall for his propaganda. And when is the last time that most of us received a 12% raise (which is the amount of the proposed increase)?

And, while I applaud the Companies endeavor to move fixed costs to fixed charges (witness the increase in the customer charge to $15.00 with a small increase in the per-unit (or energy) charge), I take exception to the fact that a flat-block rate still is being proposed; given that the per-unit cost of electricity is not constant (in fact, it increases as higher-cost generating units are called upon to supply power), the proposal of flat-block rates is not only inefficient, but also irresponsible. The fact that the Kentucky Public Service Commission has entertained such rate-making policy is also not only irresponsible, but also is in contrast to a study that was funded by the Governor's Office of Energy Policy in late 2007

("Report on Rate Design and Rate-Making Alternatives as They Impact Energy Efficiency", which is available online at: http://www.energy.ky.gov), which clearly states that:

"From an economics standpoint, the flat rate approach is inconsistent with how the cost of energy varies depending on a number of variables including the time of day, the season, and customers' individual peak demands."

And, perhaps more importantly,

"Flat rates will not signal to customers the marginal cost of supply. Rates could theoretically be redesigned to communicate the higher marginal supply costs. For instance, the introduction of an increasing energy block rate, (as described in Section 1C), would communicate that higher usage cost more than average cost. This rate change should lead to somewhat more demand response than a simple increase in flat rates."

Isn't this what energy efficiency is all about? Allowing people to respond to a price signal so that they make appropriate choices in energy efficiency and conservation, in general?

Clearly, the Kentucky Public Service Commission needs to do some research so that they can begin to understand the simple economic principle of price elasticity and that people do respond to a price signal. With that said, they need a price signal to which to respond.

The bottom line is this: The regulatory paradigm in this country needs to change. Both consumers and producers are responsible for effecting a change in Green House Gas Emissions; it is a collaborative effort. Public Regulatory Commissions have a pivotal role in this effort; rewarding renewable resources and discouraging fossil-fuel fired generating technologies is key (e.g., higher returns on renewable resources and lower returns on fossil-fuel generating technologies). A signal needs to be sent to the utilities in Kentucky, some of which have been operating so inefficiently, especially those that are foreign- and investor-owned. It is abysmal.

Sincerely,

Janet Pawley

Janet Pawley
508 Wendover Avenue
Louisville, KY 40207