TO: Case File No. 2014-00371

RE: Application of Kentucky Utilities Company for an Adjustment of its Electric Rates

Attached is an e-mail from Electric and Gas Rate Design Branch Manager Leah Faulkner to David Shouse regarding Kentucky Utilities' Company's demand and energy charges. This e-mail is being filed in the case file for the PSC's record.

Sincerely,

Jeff Derouen
Executive Director
Mr. Shouse, good afternoon! Ginny Smith in our Consumer Services Division asked me to contact you with a definition of demand charges. She said your inquiry was related to the rate case of Kentucky Utilities in Case No. 2014-00371, in which you had provided a letter of public comment. I got your email address from that letter in the case record, thinking it might be easier to provide an explanation in writing.

Electric utilities bill customers that use a relatively large amount of power using both energy charges and demand charges. Energy charges are based on the amount of power that is used, billed in kilowatt hours (kwh). Demand charges are based on the customers’ highest level of usage during a period, and the contribution of large usage customers to the highest level of usage for which the utility’s system was built.

Utilities invest in electric generation, transmission and distribution equipment to meet the maximum demand that all customers may require at one time. Even if large usage customers are not using much, or any, power during a particular month, the utility’s system is required to always stand ready to provide the maximum amount of power the customer might demand. Demand charges tend to collect the fixed charges of a utility’s system, while the energy charges collect the variable costs of serving customers. You might think of the demand charge as a reservation charge for the capacity that is always available to serve your property.

I hope this helps. Please let me know if you have any questions about this information.

Leah Faulkner
Kentucky Public Service Commission
502-782-2649