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Via Overnight Mail

December 3, 2019

Mr. Reece McAlister, Executive Secretary
Georgia Public Service Commission
244 Washington Street, S.W.
Atlanta, Georgia 30334-5701

Re: Georgia Power Company's 2019 Rate Case; Docket No. 42516

Dear Mr. McAlister:

Please find enclosed the original and fifteen (15) copies of the BRIEF AND PROPOSED ORDER OF THE KROGER CO. for filing in the above-referenced matter. I also enclose a CD containing same in .Word format and .Pdf format.

By copy of this letter, all parties listed on the Certificate of Service have been served. Please place this document of file.

Very Truly Yours,

K. Boehm

Kurt J. Boehm, Esq.
Jody Kyler Cohn, Esq.
BOEHM, KURTZ & LOWRY

MLKkew
Attachment
cc: Certificate of Service

BEFORE THE
GEORGIA PUBLIC SERVICE COMMISSION

In The Matter of	)	
Georgia Power Company's	)	**Docket No. 42516**
2019 Rate Case	)	

BRIEF AND PROPOSED ORDER OF THE KROGER CO.

I. INTRODUCTION

Pursuant to the Georgia Public Service Commission's May 24, 2019 Order, Kroger Co. ("Kroger") submits its Brief and Proposed Order reflecting its recommendation with respect to Georgia Power Company's 2019 Rate Case.

II. BRIEF AND PROPOSED ORDER

1. <u>The PLM Basic Service Charge Should Be Increased In Order To Better Reflect Cost-of-Service.</u>

Georgia Power has proposed to increase the PLM basic service charge from $19.00 per month to $38.00 per month. Georgia Power's proposed increase in the basic service charge for the PLM tariff is a step in the right direction for aligning costs and rates. However, the Company's cost-of-service study indicates that customer-related costs for this tariff are $136.13 per month.[1] Consequently, the Company's proposed basic service charge for PLM is still well below cost-of-service. Kroger recommends that the Commission approve a more significant step toward aligning costs and charges for PLM customers.

As Kroger witness Kevin Higgins testified, rate design for any tariff should be representative of cost causation, to the maximum extent practicable. That is, demand-related costs are most appropriately collected via demand-related charges (*i.e.*, kW or the demand component of an hours-use energy charge), energy-related costs collected through energy charges (*i.e.*, kWh), and customer-related costs collected via customer charges (*i.e.*, basic service charge).[2]

[1] See Exhibit __LTL-1.
[2] Direct Testimony of Kevin Higgins pp. 10-11.

According to Mr. Higgins, aligning rate design with underlying cost causation improves efficiency because it sends proper price signals. It is also important for ensuring equity among customers, because properly aligning with costs minimizes cross-subsidies among customers within the same class. For example, if customer-related costs are understated in utility rates, the costs are made up elsewhere – typically in energy or demand rates. When this happens, higher volume customers in the class are forced to pay the demand-related costs of lower volume customers. This amounts to a cross-subsidy that is fundamentally inequitable.[3]

In light of these concerns, at minimum the PLM basic service charge should be increased to $68.00 per month, which is 50% of cost. However, increasing the customer charge above $68.00 per month would also be justified given the fact that Georgia Power incurs $136.13 per month in PLM customer-related costs. An increase to the basic service charge is also appropriate given the rate structure of Georgia Power's other tariffs. For example, Kroger pays a basic service charge of $251 per month for service on TOU-HLF.[4] In comparison to TOU-HLF, the current PLM basic service charge and Georgia Power's proposed PLM basic service charge appear to be significantly underpriced.

Any increase in the basic service charge should be offset by a revenue neutral reduction to the PLM hours-use energy charges on a pro rata basis. If the basic service charge is increased to $68.00 per month for example, Kroger estimates that the reduction to each of the hours-use energy blocks necessary to accomplish this would be a little less than 2% relative to Georgia Power's proposed PLM hours-use energy charges.[5]

Proposed Order- PLM Basic Service Charge

Georgia Power's proposed increase in the basic service charge for the PLM tariff from $19.00 per month to $38.00 per month is a step in the right direction for aligning costs and rates. However, the basic service charge for this tariff is still well below cost-of-service, which is $136.13 per month. Therefore, the Commission finds that the basic service charge for the PLM tariffs be increased to 50% of cost ($68.00 per month), with an offsetting reduction to the hours-use energy charges in the tariff on a proportionate basis.

[3] *Id.*, p. 11.
[4] In this proceeding, Georgia Power is proposing to reduce the TOU-HLF basic service charge to $238 per month, which would be 100% of cost.
[5] Direct Testimony of Kevin Higgins, pp. 12-13.

2. **<u>Georgia Power's Ratemaking Treatment Of Wholesale Sales Margins Should Be Modified So That Georgia Power Credits Customers 100% Of Projected Test Year Profits From Economy Energy/Opportunity Sales; And 100% Of Projected Test Year Capacity Revenues From Market-Based Tariff Sales.</u>**

As described in the Direct Testimony of David P. Poroch, Sarah P. Adams, and Michael B. Robinson, Georgia Power engages in three types of wholesale sales transactions: economy energy/opportunity sales, market-based tariff sales, and wholesale block power and solar sales. The facilities used to produce the latter are allocated a share of the Company's production cost. In contrast, the cost of the facilities used to make economy energy/opportunity sales and market-based tariff sales is allocated to customers. The profit on the economy energy/opportunity sales is split 75% to customers and 25% to the Company and the capacity revenues from market-based tariff sales is split 80% to customers and 20% to the Company. The discussion that follows is focused on the treatment of these two types of wholesale transactions.[6]

Kroger is not opposed to Georgia Power receiving a share of off-system sales margins as an incentive to make such sales. However, as explained in the Direct Testimony of Kroger witness Kevin Higgins, there is an important and subtle difference between a reasonable incentive mechanism and what Georgia Power is proposing. It can be reasonable to share off-system sales margins that are based on <u>deviations</u> from the level of margins projected in the test period. That is, if Georgia Power *increases* its off-system sales margins above test period levels, then some sharing of the net proceeds from this increase may be appropriate. Similarly, if Georgia Power's off-system sales margins fall below test period levels, some sharing of this burden may be appropriate. Properly structured, this type of sharing of deviations in off-system sales margins relative to the test year level can provide a useful financial incentive to the utility to maximize off-system sales margins. In fact, if the sharing percentages applied to the deviations are the same sharing percentages proposed by Georgia Power to the total margins, it provides just as strong an incentive for Georgia Power to makes these sales as the Company's proposal does, because the incremental benefit to the Company of making an additional sale is the same under both approaches (as is the incremental cost of failing to make a sale). What is fundamentally different about the two approaches is their starting points: the deviations-based approach starts from a more equitable position.[7]

[6] Direct Testimony of David P. Poroch, Sarah P. Adams, and Michael B. Robinson, pp. 63-64.
[7] Direct Testimony of Kevin Higgins, p. 6.

In contrast, Georgia Power is seeking to build in to rates the presumption that shareholders are entitled to retain 20%-25% of <u>total test period</u> margins, rather than just the deviations in these margins from their reasonably projected level. The Company's proposed approach is unreasonable because customers are responsible for 100 percent of the prudently incurred costs associated with the assets that produced the test year benefits. Therefore, customers should be credited with 100% of the test period margin on these sales. Any incentive mechanism for the Company to make off-system sales should be designed with this as a starting point.[8]

In support of the Company's treatment of market-based tariff sales, the Georgia Power witnesses cite to the Commission's treatment of off-system sales margins in Docket No. 3397.[9] However, in addressing this issue in its Order on Reconsideration in Docket No. 3397, the Commission recognized that there is a valid argument that 100 percent of these margins should be credited to customers: "As the ratepayer contributes a return on the plants from which alternate energy sales are made, the ratepayer is entitled to the profits from these sales."[10] The Commission then went on to make it clear that its approval of the sharing of margins with shareholders in that docket did not establish a precedent of stockholder entitlement to these funds:

> However, pending further consideration of this matter *and without establishing a precedent of stockholder entitlement to a share of these funds*, the Commission will split the benefits of these rates between ratepayers and stockholders, and as a result, the Company's net income after taxes will be increased by $584,000.[11] [Emphasis added]

In light of the Commission's express statement that a precedent of stockholder entitlement to these margins was not established, it is useful to reconsider the premise under which any sharing of margins would occur. Kroger's proposal would accommodate an efficient sharing mechanism based on deviations from expected test period profits from economy energy/opportunity sales and market-based tariff sales. This approach, which is fairer to customers than the Company's proposal, should not be precluded simply because a different basis for sharing margins has been in place in prior cases.[12]

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[8] *Id.,* p. 7.
[9] Direct Testimony of David P. Poroch, Sarah P. Adams, and Michael B. Robinson, p. 63.
[10] Georgia Public Service Commission, Docket No. 3397, Order on Reconsideration at 16.
[11] *Id.*, p. 16.
[12] Direct Testimony of Kevin Higgins, p. 8

Kroger's proposed treatment of off-system sales margins is consistent with the way that off-system sales margins are treated by regulators of the other Southern Company utilities. According to the Company's Response to STF-L&A-1-55, attached as Exhibit__(KCH-2), 100 percent of capacity margins earned by Alabama Power Company are credited to customers.[13] Similarly, 100 percent of the margins from opportunity sales are credited to Mississippi Power Company and Alabama Power Company customers. Significantly, according to the Company's data response, none of the other Southern Company utilities automatically retains a portion of test period economy sales margins as Georgia Power does.

Based on information provided by Georgia Power in response to Discovery Request STF-L&A-4.1, the retail cost-of-service should be reduced by $1.219 million to reflect additional economy energy sales revenue and by $1.024 million to reflect additional short-term capacity sales revenue.[14]

In sum, Kroger recommends that the Commission require Georgia Power to credit customers with: (1) 100% of projected test year profits from economy energy/opportunity sales; and (2) 100% of projected test year capacity revenues from market-based tariff sales. These credits should be reflected in the energy charges in the base rates established in this case. The Commission should require Georgia Power to calculate the impact of this change in treatment in a compliance filing, consistent with the information provided by the Company in response to STF-L&A-4.1, WP 13 and WP 22. To the extent that the Commission wishes to provide Georgia Power with an opportunity to share in the margins from such sales, then the Commission should adopt a sharing provision in which <u>deviations</u> from the level of margins projected in the test period are shared between customers and the Company on an 80% customer/20% Company basis.

Proposed Order- Treatment of Off-System Sales Margins

Georgia Power's ratemaking treatment of wholesale sales margins should be modified so that customers are credited with (a) 100% of projected test year profits from economy energy/opportunity sales; and (b) 100% of projected test year capacity revenues from market-based tariff sales.

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[13] Mississippi Power Company retains 25% of the short-term capacity sales revenues.

[14] Georgia Power Response to STF-L&A-4.1, WP 13 and WP 22, attached as Exhibit__(KCH-3).

III. CONCLUSION

WHEREFORE, The Kroger Co. respectfully requests that the Commission adopt its proposal with regard to the PLM Basic Service Charge and the treatment of Wholesale Sales Margins.

Respectfully submitted,

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COUNSEL FOR THE KROGER CO.

December 3, 2019

CERTIFICATE OF SERVICE

I certify that on the 4TH day of December, 2019 I served the foregoing BRIEF AND PROPOSED ORDER OF THE KROGER CO. via e-mail (when available) or by depositing same, postage prepaid, in the United States Mail to all parties of record at their addresses shown below:

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