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September 13, 2011

RECEIVED

SEP 13 2011

PUBLIC SERVICE  
COMMISSION

Mr. Jeff Derouen, Executive Director  
Public Service Commission  
211 Sower Boulevard  
Frankfort, Kentucky 40602

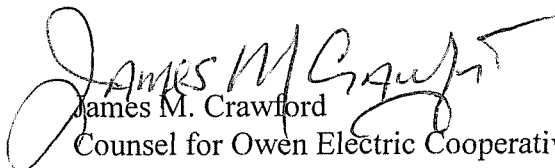
**RE: PSC Case No. 2011-00037**

Dear Mr. Derouen:

Please find enclosed an original and ten copies of OWEN ELECTRIC COOPERATIVE, INC., FIRST INFORMATION REQUEST TO THE ATTORNEY GENERAL.

Respectfully yours,

CRAWFORD & BAXTER, P.S.C.

  
James M. Crawford  
Counsel for Owen Electric Cooperative, Inc.

JMC/mns

Enclosures

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

SEP 13 2011

PUBLIC SERVICE  
COMMISSION

In the Matter of:

APPLICATION OF OWEN ELECTRIC COOPERATIVE, )  
INC., FOR AN ORDER AUTHORIZING A )  
CHANGE IN RATE DESIGN FOR ITS RESIDENTIAL )  
AND SMALL COMMERCIAL RATE CLASSES AND )  
THE PROFFERING OF SEVERAL OPTIONAL RATE )  
DESIGNS FOR THE RESIDENTIAL RATE CLASSES )

CASE NO.  
2011-00037

**OWEN ELECTRIC COOPERATIVE, INC.'S**  
**FIRST INFORMATION REQUEST TO**  
**THE ATTORNEY GENERAL**

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The Attorney General of the Commonwealth of Kentucky, pursuant to 807 KAR 5:001, is to file with the Commission the original and 10 copies of the following information, with a copy to all parties of record. The information requested herein is due no later than September 26, 2011. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Please repeat the question to which each response is intended to refer. Owen can provide counsel for the Attorney General with an electronic version of these questions, upon request.

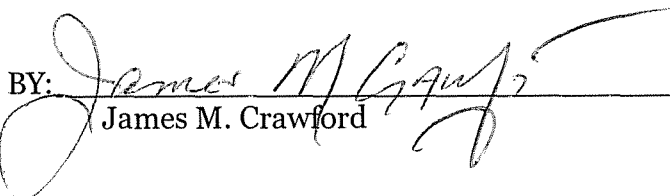
Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information and belief formed after a reasonable inquiry.

The Attorney General of the Commonwealth of Kentucky shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Attorney General fails or refuses to furnish all or part of the requested information, the Attorney General shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention should be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request.

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Attorney for  
Owen Electric Cooperative, Inc.

BY:   
James M. Crawford

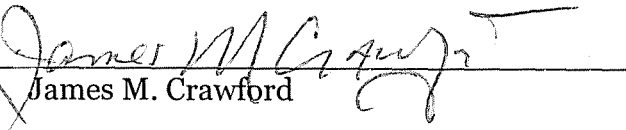
CERTIFICATE OF SERVICE

This is to certify that a true and correct copy of the foregoing was hand-delivered on this the 13th day of September, 2011, to:

Mr. Jeff Derouen, Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
Frankfort, Kentucky 40602

Hon. Quang Nguyen  
Kentucky Public Service Commission  
211 Sower Boulevard  
Frankfort, Kentucky 40602

Hon. Dennis G. Howard, II  
Hon. Lawrence W. Cook  
Assistant Attorney General  
1024 Capital Center Drive, Suite 200  
Frankfort, Kentucky 40601-8204

BY:   
James M. Crawford

APPLICATION OF  
OWEN ELECTRIC COOPERATIVE, INC.  
FOR AN ADJUSTMENT OF RATES  
CASE NO. 2011-00037

Owen Electric Cooperative Corporation's  
First Information Request to  
The Attorney General

1. With regard to the Attorney General's Prefiled Testimony of Mr. Glenn A. Watkins (hereinafter "Watkins testimony"), Page 2, Line 26-27, and Page 3, Lines 1-3, wherein he states:
  - a. "Owen's proposed Residential Schedule I rate design directly conflicts with sound economic principles." Please explain how this rate directly conflicts with sound economic principles when Economic Principles state that in a natural monopoly (one with economies of scale such as Owen), pricing is where price equals average total cost (ATC), not when price equals marginal cost. This is because when price is equal to marginal cost, losses can occur. In the rate design proposed, the customer charge is the average total cost of providing basic service and any charges above that is the cost of providing kWh's. How is this not sound economics?
  - b. Long established rate making policy (volumetric based) has not encouraged conservation to any large degree. Given this, does Watkins agree or disagree whether the current rate making policy needs to be altered? Why or why not?
    - 1) In an ever-changing world, does reevaluating and possibly changing the methods of old not lead to new innovations and efficiency and possibly a new outcome?
    - 2) Does Watkins contend he is qualified to say that without a doubt, altering the long established rate making policy will not lead to a better financial situation for an electric utility because it will not have to rely on energy sales for financial stability? Why or why not?
  - c. What qualifications does Watkins have to say what is or is not in the public's best interest?
    - 1) Economic principles make behavioral assumptions that we are rational decisions makers. Please provide studies supporting Watkins contention that such a rate plan is not in the public interest.
2. With regard to Watkins testimony, Page 3, Line 9, wherein he states:
  - a. "Owen's proposed rate changes for its residential customers charges are not revenue neutral." How is it not revenue neutral for this rate class? Provide calculations to support your position.

3. With regard to Watkins testimony, Page 3, Lines 22-26, please provide the numerical increase or decrease and the corresponding percentage differences for residential consumers in an annual bill for users on 100 kWh increments from 800 kWh to 2800 kWh.
4. With regard to Watkins testimony, Page 3, Line 28, where Watkins references the testimony of Mark Stallons, please identify the page and line number where exact quote or quotes were made.
5. With regard to Watkins testimony, Page 4, Lines 10-29, wherein he states:
  - a. That “Virtually every electric utility in the nation relies upon a rate structure that is overwhelmingly volumetrically based. Indeed, for decades the pricing structures of electric utilities have been largely volumetric based. This industry has remained not only financially viable, but has grown and prospered throughout the Country under volumetric rates for decades and continues to do so.”
    - 1) Does Watkins agree, then, that the electric industry should continue to follow this historical rate structure based on volume in the current era of increased pressure for energy conservation, efficiency, environmental concerns, EPA rulings and declining disposable income so to stay viable, grow and prosper? Why or why not?
    - 2) Does Watkins believe volumetric sales should be the goal of electric utilities? If not, how should the rate structure be designed so that the Cooperative stays prosperous and viable as a going concern? Please support your answer.
    - 3) Does Watkins agree that frequent rate case increases are the most efficient tool to achieve reasonable margins for the Cooperative? Why or why not?
    - 4) Does Watkins believe that frequent rate case increases are the proper approach to minimize Cooperative’s costs, increase member satisfaction, and to uphold Cooperative principles? Why or why not?
  - b. Why do you believe that Owen is unique in its approach in this case when there have been several studies advocating a higher customer charge? Is Owen not following current best practices as sighted in attachments to Owen’s response to Question 2 of the Commission Staff’s Second Information Request? If no, then explain which “best practices” are not being followed.
6. With regard to Watkins testimony, Page 5, Lines 8-11, wherein he refers to “the laws of physics dictate”. Please cite law of physics referred to in his testimony and state how do the laws of physics impact economic theory and pricing based on marginal costs or electric appliance efficiencies?

7. With regard to Watkins testimony, Page 5, Lines 1-27, wherein he refers to the increased efficiency gains offset with the increased use of electric devices, does he believe that consumers will reach a point where the price of electricity will switch from inelastic to elastic? Why or why not?
  - a. Does Watkins believe we are going to quickly approach this price point since the price of electricity is forecasted to increase exponentially in Kentucky over the next few years due to environmental regulations and standards?
  - b. When this price point is met, does Watkins believe usage will decline and could potentially damage the financial stability of Owen? If so, are costly and frequent rate increases the solution to offset the financial loss? If it is not, what does he believe is?
8. With regard to Watkins statement on Page 5, Line 9, “that electric appliances have largely reached a point of diminishing efficiency gains”
  - a. Has Watkins considered the impact of smart appliances and home energy networks in automated energy efficiency improvement in the appliance area?
  - b. If so, what is Watkins’ opinion regarding the potential impact of smart appliances and home energy networks on household energy efficiency?
  - c. Has Watkins considered the impact of pre-pay metering technology and the 12% improvement in energy efficiency claimed by utilities utilizing pre-pay systems?
  - d. Does Watkins have any measured opinion in regards to whether home energy networks combined with smart appliances would yield similar 12% energy efficiency improvements?
9. With regard to Watkins testimony, Page 5, Line 12, wherein he states that “it is highly unlikely that Owen’s Residential customers will significantly reduce their total electricity consumption to any material degree in the next several years”.
  - a. Please provide support of this statement in the form of published studies, analysis, programs, or evaluations.
10. With regard to Watkins testimony, Page 5, Lines 15-17, wherein he states “Even if Owen were to experience an erosion in sales due to technological change, it will presumably also gain cost efficiencies due to technological change as well.”
  - a. Please identify these so-called “cost efficiencies”, and provide the gains associated with them.
11. With regard to Watkins testimony, Page 6, Line 1, wherein he states “a fundamental goal of regulatory policy is that regulation should serve as a surrogate for competition to the greatest extent practical” and, hence pricing should mirror those of a competitive firm and he cites Bonbright.

- a. In competition, efficiency arises when price equals marginal cost. However, for a natural monopoly, pricing the good or product at this point results in losses and eventually shuts down the natural monopoly. Therefore, the government sets the price where price equates to average total cost. Here, the natural monopoly is able to realize reasonable economic profit. In the rate design proposed by Owen, the customer charge is the average total cost of providing basic service and any charges above that is the cost of providing kWh's, the marginal cost. Please explain then how the rate structure proposed by Owen does not uphold economic principles in that zero economic profits are earned.
  - b. Can a natural monopoly price it's goods or services at a rate where price equals marginal cost and remain economically viable? If one can, please provide examples of same.
12. With regard to Watkins testimony, Page 6, Lines 13-20, the question asked of him was to discuss how prices are generally structured in competitive markets. In his answer, Watkins contends that efficient prices result when prices are equal to marginal costs and he contends in the long run, all costs are variable even if there is a high amount of fixed costs or excess capacity.
  - a. How then should Owen pay for excess capacity when regulation and good utility practice dictates that we keep this excess capacity for peak days?
  - b. Explain in detail how volume based pricing relates to marginal costs.
  - c. When or how will Owen reach the long run, and likewise maximize efficiency, given the fact that, in reality, firms operate in the short run since the long run is never met in a dynamic market?
13. With regard to Watkins testimony, Page 6, Lines 25-28, and Page 7, Lines 1-8, he states that under efficient pricing principles, prices are variable in nature so to capture the variability of costs. In the pricing structure facing Owen, prices are not fully variable in that to change prices a costly and justifiable rate case is required. Therefore, is it viable for Owen to price its rates like a competitive market? If so why?
  - a. Owen is setting the price per kWh equal to the marginal cost (wholesale price). Please explain then how this contradicts the competitive market theory in which you are suggesting Owen participate in.
14. With regard to Watkins testimony, Page 7, Lines 10-19, wherein on Line 18, he contends that customer costs are a measure of incremental change in costs resulting from a corresponding incremental change in the number of customers. How can this be applied to Owen when one, the customer cost is measured by the average customers, and two, the incremental cost varies for each customer?
  - a. Is Watkins advocating that each customer (member) pay something different as it relates to the actual cost of providing service to that individual customer (member)?



- b. If Watkins believes Owen's current rate design is efficient and appropriate, then why wouldn't a rate neutral design that merely adjusts the allocation of charges, and wherein the overall annual bill does not significantly change, also not be efficient and appropriate?
  - c. Please provide copies of all published studies that relate to marginal cost pricing in other cooperatives of comparable size and density to Owen.
15. With regard to Watkins testimony, Page 7, Lines 12-13, wherein he states that three separate categories of marginal costs exist and they include customer, demand and energy. These are the same categories in the classification process of an embedded cost of service study. Should not the prices/rates be based upon the most appropriate cost drivers? Provide support for your position.
16. With regard to Watkins testimony, Page 8, Lines 4-26, wherein he states that with volumetric pricing the more benefits a consumer receives, the more they pay. Please provide proof that the revenue neutral rate suggested by Owen contradicts volumetric pricing. Is the bill not higher if one uses more kWh?
- a. Watkins states this so-called belief of volumetric pricing referenced in Lines 7-18 of his testimony has been in place since the 1800's. Is he suggesting that we are living in the same world where we want to promote sales so as to make normal margins and continue in the way of the 1800's? Please provide published studies in support of said position.
  - b. Please provide copies of the marginal cost studies Watkins claims in his testimony he conducted or evaluated involving electric utilities in Connecticut, Illinois, Maine, Virginia, and Washington, DC.
    - 1) Are the electric utilities referred to in 14 b above, Connecticut, Illinois, Maine, Virginia, and Washington, DC., of similar density, management, structure, and general characteristics as Owen? If not, do you believe they are valid comparisons to Owen? If they are not valid comparisons, do you have any studies that support your position? If so please provide copies of those studies.
    - 2) With regards to Watkins testimony on Page 8, Line 11-18, wherein he discusses fairness and equity. In the real world a \$6 to \$8 customer charge does not begin to cover the electric cooperative customer related costs of \$27. Would Watkins agree that if a cooperative member uses minimal amounts of energy, significantly less than the average, then they shift consumer related costs to other members who use more energy? Please address how this is fair and equitable?
17. With regard to Watkins testimony, Page 9, Lines 1-15, is it Mr. Watkins' belief that management should only manage in the long-run?
- a. If so, when is the long run ever met?

- b. Please provide studies of companies managing in and pricing based on the long run and ignoring short run fixed costs.
  - c. Does Watkins agree or disagree that the volatility of the current economic environment supports the need for short run goals and pricing rather than long run pricing? Explain your position.
  - d. Watkins states that prices for competitive products and services in capital intensive industries are established on volumetric bases, including those that were once regulated. Does Watkins believe these so-called past regulated industries, motor transportation, airline travel and rail services, are natural monopolies?
    - 1) If not, what market structure does he consider them to be?
    - 2) Is such a market structure a valid comparison to the natural monopoly market structure of Owen?
  - e. Industries such as cable, internet and phone are considered natural monopolies. Rates charged for these goods are not volumetric rates. Are the prices these industries charge not efficient?
18. With regard to Watkins testimony, Page 9, Lines 17-30, and, Page 10, Lines 1-25 based on economic behavior assumptions, does he believe consumers react to the individual components of their bill or the total bill?
- a. If the bill is revenue neutral and if a consumer reacts to the total bill rather than the individual components, how is additional consumption promoted?
  - b. Please provide support, in the form of studies and other documents, for Watkins' contention that consumers will analyze the components of their electric bill, will recognize a lower energy rate, and, as a result, use more energy .
19. With regard to Watkins testimony, Page 11, Lines 9-19, please provide support that a pricing structure that is largely fixed in nature promotes inefficient utilization of resources.
20. With regard to Watkins testimony, Page 11, Lines 21-31, and Page 12, Lines 1-2, please support his contention that with Owen's proposed rate structure the majority of a typical bill will no longer be volumetrically based.
- a. In Watkins' testimony, Page 11, Lines 28 and 29, he contends the rationale of fixed charge pricing approaches escapes him as an economist. Please explain the basis for this statement and provide support for same.
  - b. In Watkins' testimony, Page 11, Lines 29-31 and Page 12, Lines 1 and 2, please state the facts upon which he bases his opinions and/or conclusions that Owen would enjoy excessive profit about normal margins, and how this new rate structure will result in alleged excessive profits.

21. With regard to Watkins testimony, Page 12, Line 4 through 17, Watkins testified that comparing competition for electric generation with the bundled electric service provided by Owen is not a good apples-to-apples comparison. Please state the facts upon which Watkins reached this conclusion and why Watkins still compares and uses the Texas retail electric competition for support of his position.
  - a. State in full detail why Watkins did not use Texas Electric Cooperative's rate structure as a comparison.
  - b. State examples, if any, of what Watkins would determine to be an "apples-to-apples" comparison.
22. Referring to Watkins testimony, Page 12, Lines 21 through 27; page 13, lines 1 through 32 and page 14, lines 1 and 2, is Watkins:
  - a. Advocating deregulation? If so, explain in detail, the basis for this position.
  - b. If he's advocating deregulation, then must a utility still cover its cost to serve if deregulated?
  - c. In reference to Schedule GAW-2, for the companies listed, please provide the following information: the type of company (marketer, wholesaler, municipal, investor owned utilities, cooperative, etc), services provided (distribution, supplier or both), and density.
  - d. Please provide the residential customer charges for all Texas electric cooperatives, the average residential customer charge, the average residential energy charge, together with the customers per mile of line for each such cooperative or utility.
23. Referring to Watkins testimony, Page 14, Line 4 through 18:
  - a. Provide studies supporting the notion that consumers and the market have a clear preference for volumetric pricing.
    - 1) Is this notion applicable to natural monopolies? If so, provide support.
  - b. As it references the statement, "The only reason utilities are able to achieve pricing structures with high fixed monthly charges is due to their monopoly status" on lines 12-14,
    - 1) Is Watkins implying that natural monopolies can price at will and that Owen follows such a premise? And, if so, the basis for that supposition?
    - 2) Is Watkins implying that all natural monopolies base more than ninety percent of their pricing on volume in today's market? And, if so, give specific examples of such natural monopolies.

24. Referring to Watkins testimony, Page 14, Line 20 through 31 and Page 15, Lines 1 through 20:
- a. Does Watkins support surcharges to pay for conservation programs? If the answer is 'yes', then provide a detailed explanation to support the answer with specific examples. If the answer is 'no', then explain why Watkins does not support surcharges to pay for conservation programs.
  - b. Does Watkins believe that aggressively initiating and promoting cost effective conservation programs supports his position of volumetric rates? If so, how?
  - c. How does Watkins explain his position on advocating conservation but continuing volumetric rates because the industry has "grown and prospered" and will "continue(s) to do so"?
  - d. In Watkins' opinion, how does the new rate design deter Owen from promoting all effective energy conservation measures?
25. Referring to Watkins testimony, Page 15, Line 22 through 31; Page 16, Lines 1 through 12:
- a. Does Watkins support a fully allocated cost of service study as a means of determining the cost of service to the rate classes? If yes, why? If no, why not?
  - b. Why does Watkins believe that overhead expenses or any other indirect costs are more appropriately recovered through energy charges?
  - c. Does Watkins feel it is fair for the customer to pay the overhead expenses of the utility for using an extra light instead of just the energy charge for turning on an extra light in their home? Please defend the position taken.
26. Referring to Watkins testimony, Page 15, Lines 25 through 30:
- a. Provide authoritative support for Watkins' "direct customer cost analysis technique".
  - b. Provide copies of the case orders where this technique has been accepted by regulatory authorities.
27. Referring to Watkins testimony, Page 16, Lines 1 through 12:
- a. Why does Watkins not include the cost of transformers in his direct customer cost analysis since the cost of a transformer is necessary for customers?
  - b. Since for rural electric cooperatives a separate transformer is usually necessary in order for every consumer to receive electricity, does Watkins not agree that the cost of the transformer should be included in his direct customer cost analysis? Why or why not?

- c. Please provide the customer charges for both the residential and small commercial classes that include the direct expenses with the inclusion of a transformer.
  - d. Marginal costs have been discussed as the proper approach for pricing service and it is further discussed that the customer charge should be based upon direct costs. Please calculate what the direct costs would be for the customer charge by using current cost, using your direct customer cost analysis technique, with and without transformer costs included.
  - e. Does Watkins believe in losses on the customer charge and making it up on volume sales? Please explain this response.
28. Referring to Watkins testimony, Page 16. Lines 14-21 wherein he states “that customers do not subscribe to Owen’s services simply to be “connected,” overhead and indirect costs are most appropriately recovered through energy charges”
- a. Does Watkins believe that in a business where the price of a good is determined, would not overhead be included in the price determination?
  - b. If a company does not recover all of its fixed costs in the short run, would Watkins agree that a company will likely go out of business before it reaches the theoretical “long run”?
  - c. Would Watkins agree that the price of the good must rise to cover all costs associated with running the business in an efficient manner?
29. Referring to Watkins testimony, Page 17, Lines 4 through 30; page 18, lines 1 through 27:
- a. Does Watkins believe that Owen is reaching the price point where the price will become elastic?
  - b. Does Watkins believe that with an aggressive educational plan by Owen, TOD rates will become more popular? Why or why not?
  - c. Please define what an “instant case” is as referred to throughout Watkins’ testimony. Please document where Owen refers to this case as an “instant case” in the original filing.
30. Please provides copies of all contracts between the Attorney General’s office and that of Watkins, including any contract with him personally, or any consulting firm for which he owns any interest and/or is employed on a part time or full time basis. Additionally, please supply information relating to all engagements that Watkins has worked for the Attorney General’s office in the last five years, including the nature of the engagement, the dates of service of each engagement, and the compensation Watkins received for his services for each engagement.