

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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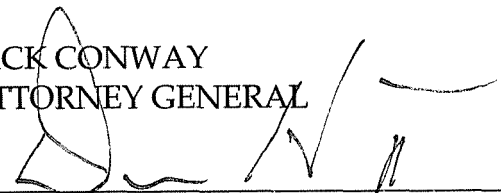
APPLICATION OF OWEN)
ELECTRIC COOPERATIVE, INC.) Case No. 2011-00037
FOR AN ADJUSTMENT OF RATES)

**ATTORNEY GENERAL'S RESPONSE TO THE COMMISSION
STAFF'S DATA REQUESTS**

Comes now the Attorney General of the Commonwealth of
Kentucky, by and through his Office of Rate Intervention, and tenders his
responses to the Commission Staff's Data Requests.

Respectfully submitted,

JACK CONWAY
ATTORNEY GENERAL



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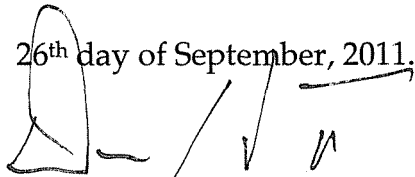
Certificate of Service and Filing

Counsel certifies that an original and ten photocopies of the foregoing were served and filed by hand delivery to Jeff Derouen, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; counsel further states that true and accurate copies of the foregoing were mailed via First Class U.S. Mail, postage pre-paid, to:

Hon. James M. Crawford
Crawford and Baxter, P.S.C.
523 Highland Avenue
P.O. Box 353
Carrollton, KY 41008

Mark Stallons
President
Owen Electric Cooperative, Inc.
P. O. Box 400
Owenton, KY 40359

this 26th day of September, 2011.



Assistant Attorney General

ATTORNEY GENERAL'S REPSONSES TO DATA REQUESTS OF
KENTUCKY PUBLIC SERVICE COMMISSION STAFF
CASE NO. 2011-00037

WITNESS RESPONSIBLE:

Glenn Watkins, Counsel

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QUESTION 1:

Refer to page 3 of the Direct Testimony and Schedules of Glenn A. Watkins ("Watkins Testimony"). Mr. Watkins states that Owen Electric Cooperative Corporation's ("Owen") proposed Residential Schedule 1 rate design is contrary to long established ratemaking policy.

- a. Identify the "long established ratemaking policy" to which Mr. Watkins is referring and whether it is a policy of this Commission.
- b. Explain whether the AG is proposing that electric utility rates be set by methods other than those that have been traditionally used in Kentucky.
- c. Explain whether Mr. Watkins is aware that electric utilities in Kentucky have come before the Commission in recent years to request increases in customer charges in order to recover more of their fixed costs through the fixed customer charge and that, in most instances, some increase in the customer charges has been approved.
- d. Explain whether Mr. Watkins believes Kentucky is unique among traditionally regulated states in having approved higher customer charges in recent rate cases. Include in the explanation whether Mr. Watkins believes Kentucky has approved customer charges for electric utilities in excess of what he considers appropriate.
- e. In a number of fairly recent rate cases, the AG has entered into settlements with utilities that included increases in the customer charge relative to the energy charge. Explain whether the AG now opposes these types of rate changes.

RESPONSE:

- a. Please see Mr. Watkins' testimony, page 8, line 19 through page 9, line 15. Based on Mr. Watkins experience in Kentucky, it is clear that Owen's rate design proposals are contrary to this Commission's prior practices and policies.
- b. No.

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- c. Mr. Watkins is aware that public utilities in Kentucky (and most other states) have requested higher and higher customer charges. The higher customer charges are the result of a utility's desire to minimize risk. Based on his experience, Mr. Watkins would agree that generally, some increases to customer charges have been approved by the Commission when overall revenue increases (revenue requirements) were found to be required.
- d. Mr. Watkins does not believe Kentucky is unique in establishing modest customer charges and has struck a balance between utility interests to increase customer charge to reduce risks, and rate payer interest to minimize fixed monthly charges. Mr. Watkins' has not analyzed those decisions in detail and thus is unable to provide his opinion on the reasonableness of those decisions.
- e. Objection. Attorney-Client privileged. Without waiving this objection, the Attorney General states that many settlements entered in cases before the Commission are "black box" settlements which do not always involve issues pertaining to vastly increased customer charges. Moreover, each case is unique, and by the very terms of the settlements (which the Commission has approved) cannot be used as precedent for any future case.

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QUESTION 2:

On a per-customer basis, consumption of natural gas has greatly declined among residential customers in Kentucky in recent years. Explain whether the AG believes this justifies a greater need for higher fixed charges for gas utilities than electric utilities in Kentucky.

RESPONSE:

No, he does not.

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QUESTION 3:

Refer to page 4 of the Watkins Testimony. Provide support for the statement that "Virtually every electric utility in the nation relies upon a rate structure that is overwhelmingly volumetrically based."

RESPONSE:

There are well over 100 approved tariffs for investor-owned electric utilities in the United States and several hundred approved tariffs for Cooperatives. Mr. Watkins has practiced rate design for over 31 years in more than half of the Nation's states. Currently, Mr. Watkins works in about 20 states and can say unequivocally that no electric utility he is aware of relies on fixed customer charges for the majority of its revenue, and that all electric utilities derive the majority of their revenue from variable or volumetric prices.

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QUESTION 4:

Refer to Schedule GAW-3, page 1. The recommended customer charges (including records and collections) of \$10.46 for residential customers and \$15.26 for small commercial customers differ greatly from the customer charges of \$27.66 and \$35.71, respectively, produced by Owen's cost-of-service study.

- a. Explain why the recommended customer charges resulting from the calculations in Schedule GAW-3 are so much lower than Owen's proposed charges. The explanation should include, but not be limited to, whether the exclusion of corporate overhead and other indirect costs is the only reason for the differences and, if not, identify any other factors.
- b. Explain whether the exclusion of corporate overhead and other direct costs is a standard practice in the calculation of cost of service. Include citations to rate cases in Kentucky in which these costs were excluded.

RESPONSE:

First, it should be noted that the statement in this request is incorrect in three regards. First, as stated on page 16, line 27 through page 17, line 2 of Mr. Watkins testimony, his recommendation is to maintain the current residential customer charge of \$11.30 per month. Secondly, the values of \$10.46 (residential) and \$15.26 (small commercial) reflect the upper range of Mr. Watkins' customer cost analysis. Third, Owen's calculations of \$27.66 and \$35.71 reflect fully allocated costs and not its recommended customer charges.

- a. Using the residential class as an example, Owen's calculated customer cost of \$27.66 is calculated as the fully allocated costs classified as customer of \$17,948,136 (per Exhibit 11, Schedule 4) divided by residential bills of 648,908.

The allocated costs of \$17,948,136 reflect the allocation of the residential class from a total classification of \$19,257,991 (total Cooperative). As shown in Owen Exhibit 11, Schedule 3, this \$19,257,991 includes costs associated with distribution lines (conductors), transformers, services, meters, consumer services & accounting. These amounts in turn are the result of allocated costs including overhead (administrative and general

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expenses), and a return component on General plant investment as shown in Exhibit 11, Schedule 3 and Exhibit 11, Schedule 2.2.

- b. Yes. Please see OAG response to Owen Question 25.

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QUESTION 5:

Refer to the Watkins Testimony at pages 9-10. Over a multi-year period, Owen's Schedule 1-Farm and Home energy charge is proposed to be reduced from \$0.09478 per kWh to \$0.08227 per kWh and the customer charge is to be increased from \$11.30 to \$25.00.

- a. In theory, customers have less incentive to conserve energy at \$0.08227 per kWh than at \$0.09478 per kWh. Provide any studies which demonstrate that, at these energy price levels, this class of customers will actually alter its behavior such that electricity usage will significantly increase at the lower energy charge.
- b. Provide any studies which demonstrate that, for electric energy rates at these levels, the "even stronger price signal to consumers to use more energy" will be stronger than all other non-price signals to conserve energy.
- c. Explain whether Mr. Watkins believes this reduction in the energy charge will actually influence customers to consume more electricity, or if customers are more concerned with the total charges on their bill, on which the lower energy charge will be tempered, to some extent, by the higher customer charge.

RESPONSE:

- a. Mr. Watkins has not conducted a specific price elasticity of demand study for Owen. Therefore, the requested information is unknown.
- b. Although the demand for electricity is fairly inelastic, electricity is considered a normal good; i.e., as price increases quantity demanded decreases.
- c. This will vary on a customer by customer basis. As is evident from Owen's proposed rate structure, small volume (usage) customers will see an increase in their bills while large volume customers will realize a reduction to their electric bills. All else constant, a reduced marginal price (KWH charge) will promote additional consumption.

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QUESTION 6:

Refer to the Watkins Testimony at pages 9, 11-12.

- a. Explain whether the AG is advocating that the Commission set rates based upon marginal cost studies and abandon the cost-of-service ratemaking methods that it has relied upon historically.
- b. Explain whether the AG is advocating, similar to the pricing in the competitive manufacturing and transportation industries, that all of Owen's fixed costs now being recovered in its customer charges be shifted over to its energy charges.

RESPONSE:

- a. No.
- b. No.

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QUESTION 7:

Refer to the Watkins Testimony at pages 12-13 and GAW-2. Provide an analysis similar to that performed for Texas for all electric utilities in Connecticut, Illinois, Maine, Virginia and Washington, DC.

RESPONSE:

Such an analysis is not possible since these states do not have unregulated electric service from the generator to the meter.

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Glenn Watkins

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QUESTION 8:

Refer to the Watkins Testimony at pages 15-16 and GAW-3.

- a. Explain whether the AG is advocating that this Commission now set rates based upon the direct customer cost analysis method and abandon cost-of-service ratemaking methods that have been relied upon historically.
- b. Explain how the direct customer analysis method comports with the marginal cost pricing principles discussed earlier in Mr. Watkins' testimony.
- c. Provide a list of state utility regulatory commissions that set rates based upon the direct customer cost analysis method and provide the commission order which enacted those rates.

RESPONSE:

- a. The statement is based on an argument that Mr. Watkins neither agrees or disagrees with. However, Mr. Watkins recommends that the Commission should consider direct "customer costs" in establishing fair and reasonable fixed monthly charges.
- b. Direct customer cost analyses are predicated on the accepted concepts of economic theory and marginal costs. That is, whereas the direct customer cost analysis is based on historic (embedded) costs included in Owen's overall revenue requirement, the recognition of only those costs required to hook-up and maintain a customer are included in the analysis.
- c. Please see OAG response to Owen Question 26.