

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF OWEN ELECTRIC COOPERATIVE	)	
CORPORATION TO FOR AN ORDER AUTHORIZING A	)	
CHANGE IN RATE DESIGN FOR ITS RESIDENTIAL	)	CASE NO.
AND SMALL COMMERCIAL RATE CLASSES, AND	)	2011-00037
THE PROFFERING OF SERVERAL OPTIONAL RATE	)	
DESIGNS FOR THE RESIDENTIAL RATE CLASSES	)	

COMMISSION STAFF'S FIRST INFORMATION REQUEST TO  
THE ATTORNEY GENERAL OF THE COMMONWEALTH OF KENTUCKY

The Attorney General of the Commonwealth of Kentucky ("AG"), 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.

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 AG 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 the AG fails or refuses to furnish all or part of the requested information, the AG 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. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

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.

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.

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."

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.

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.

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.


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.

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. Watkin's 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.

  
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DATED SEP 13 2011

cc: Parties of Record

Case No. 2011-00037

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