

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF FLEMING-MASON ENERGY)	
COOPERATIVE, INC. FOR AN ORDER)	
AUTHORIZING A CHANGE IN RATE DESIGN FOR)	CASE NO.
ITS RESIDENTIAL RATE CLASSES AND THE)	2012-00369
OFFERING OF SEVERAL OPTIONAL RATE)	
DESIGNS FOR THE RESIDENTIAL RATE CLASSES))	

ORDER

On October 5, 2012, Fleming-Mason Energy Cooperative, Inc. ("Fleming-Mason") tendered for filing an application seeking approval to implement a revenue-neutral change in its rate design for its residential and small power ("RSP") and large industrial customer classes, and to offer new optional rate designs for the RSP rate class. By Commission letter dated October 17, 2012, Fleming-Mason was notified of deficiencies in its application regarding the filing requirements of 807 KAR 5:001, Section 10(1)(b)(7), 807 KAR 5:001, Section 10(3)(b), 807 KAR 5:001, Section 10(6)(n), and KRS 278.180. On November 2, 2012 Fleming-Mason submitted information that corrected its filing deficiencies except for its request for waivers. On November 21, 2012 the Commission issued an Order which granted a waiver from the filing requirements of 807 KAR 5:001, Section 10(6)(h); 807 KAR 5:001, Section 10(6)(i); and 807 KAR 5:001, Section 10(6)(j), and accepted the application for filing as of that date. The Order also suspended Fleming-Mason's rates up to and including May 20, 2013, and established a procedural schedule for processing this case.

There are no intervenors in this case. Fleming-Mason responded to three information requests from Commission Staff ("Staff"). Comments in opposition to Fleming-Mason's proposal were received from three of Fleming-Mason's customers.¹ An evidentiary hearing was held on April 24, 2013. Public comments in opposition to Fleming-Mason's proposal were made and submitted on behalf of the Kentucky Solar Energy Society.² Fleming-Mason provided responses to post-hearing data requests on May 3, 2013.

TEST PERIOD

Fleming-Mason proposes to use the 12-month period ending December 31, 2011 as the historical test period to determine the reasonableness of its proposed rates. The Commission finds the use of this proposed test period to be reasonable.

Because it is not seeking an increase in revenues in this proceeding, Fleming-Mason requested waivers from a number of the filing requirements applicable to general rate applications, including those pertaining to the determination of its revenue requirement. Those waiver requests include the requirement to file a summary of its determination of its revenue requirement; reconciliation of the rate base and capital used to determine its revenue requirement; and a chart of accounts.³ The Commission's November 21, 2012 Order granted Fleming-Mason's requests for waiver for good cause shown.

¹ Letter filed January 10, 2013 from J. Michael Dobranski; Letter filed April 18, 2013 from Robert L. Perkins; Letter filed April 22, 2013 from Jennifer Gleason.

² Public comments were received from Mr. Jeff Auxier, Chair, of the Kentucky Solar Energy Society and written comments were submitted for the hearing record.

³ Application of Fleming-Mason Energy Cooperative, Inc. for an Adjustment of Rates, tendered for filing October 5, 2012, at 2.

FLEMING-MASON'S PROPOSALS

Fleming-Mason proposes to shift a portion of the recovery of its fixed costs for the RSP class from its volumetric energy charge to its monthly customer charge. It seeks to increase its RSP customer charge from \$10.83 to \$15.00 per month. Fleming-Mason's cost-of-service study ("COSS"), as revised through discovery, shows that their monthly customer-related cost for the RSP customer class is \$18.36. Fleming-Mason also proposes increased demand charges and decreased energy charge for Large Industrial Service 4, 4B, 5, 5B, 6, 6B, and 7. This change is also revenue neutral, and is proposed in order to match the demand charges established in the last rate case of East Kentucky Power Cooperative, Inc. ("EKPC"), Fleming-Mason's wholesale power supplier.

The record in this proceeding reflects Fleming Mason's interest in having its rates better reflect its cost of service, as well as its desire to re-design its rates to recover a greater portion of fixed costs through its fixed monthly customer charge, thereby reducing its exposure to revenue erosion that could occur due to decreasing sales.⁴ Residential sales declined from 279,628,705 kWh in 2007 to 267,170,425 kWh in 2011.⁵ Fleming-Mason maintains that since its costs are fixed, as energy consumption drops, its margins and cost recovery are reduced, compromising its financial integrity. In addition, Fleming-Mason states that it is making this proposal to minimize potential reductions in energy sales revenues that may occur as a result of increasing DSM and energy-efficiency programs offered to its members. Fleming-Mason offers members the

⁴ Application, Exhibit 7A, p. 8.

⁵ Application, Exhibit 7A, p. 3.

following programs: (1) Button-Up home weatherization; (2) Air Source Heat Pump Replacement Program; (3) Electric Thermal Storage Incentive Program; (4) Touchstone Energy Home; (5) Compact Fluorescent Lighting Programs; (6) How\$mart Kentucky; (7) Energy Audits; (8) Commercial Lighting Program; (9) Industrial Compressed Air Program; (10) direct load control; and (11) HVAC duct sealing program.⁶ Fleming-Mason's application also includes a proposal to establish optional RSP time-of-day ("TOD") and inclining block rate schedules, which are intended to assist residential and small power customers in managing their energy costs.⁷ The proposed TOD rate customer charge is \$20.00, with energy charges based on the number and availability of off-peak hours in which the rate is lower than in on-peak hours. For the proposed inclining block rate, Fleming-Mason proposes a customer charge of \$15.00, with increasing energy charges for usage levels of 0-300 kWh, 301 to 500 kWh, and all usage in excess of 500 kWh. In conjunction with its proposed changes in its rate design, Fleming-Mason has developed an education and communication plan for guidance in implementing its proposed tariffs as well as providing useful information on

⁶ Application, Exhibit 7A, pp. 3-5, and Fleming-Mason Energy's Response to the First Data Request of Commission Staff dated December 5, 2012, filed December 18, 2012, response to Item 9.d. With respect to the How\$mart Kentucky Program, it currently is a pilot program approved in Case No. 2010-00089, Joint Application of Big Sandy Rural Electric Cooperative Corporation, Fleming-Mason Energy Cooperative, Inc., Grayson Rural Electric Cooperative Corporation, and Jackson Energy Cooperative for an Order Approving an On-Bill Financing Pilot Program Titled the "KY Energy Retrofit Rider," (Ky. PSC December 16, 2010). An application for approval of a permanent on-bill financing program is the subject of Case No. 2012-00484, Joint Application of Big Sandy Rural Electric Cooperative, Corp., Fleming-Mason Energy Cooperative, Inc., Grayson Rural Electric Cooperative Corp., for an Order Approving KY Energy Retrofit Rider Permanent Tariff, filed November 2, 2012.

⁷ Application, Exhibit 7B, p. 3.

existing tariffs, DSM programs, and energy-efficiency tools for both its staff and members.⁸

DISCUSSION OF ISSUES

Regarding Fleming-Mason's rate design changes, the Commission finds that, for an electric cooperative that is strictly a distribution utility, there is merit to the arguments that there is need for a means to guard against the revenue erosion that often occurs due to the decrease in sales volumes that accompanies poor regional economics, changes in weather patterns, and the implementation or expansion of DSM and energy-efficiency programs. We further find, as with Owen Electric Cooperative Corporation⁹ and Big Sandy Rural Electric Cooperative Corporation¹⁰ that, in conjunction with an expansion in Fleming-Mason's DSM programs, the potential reduction in sales volumes provides strong reasons for increasing customer charges in order to improve the utility's recovery of its fixed costs, which is supported by the COSS.

Fleming-Mason has stated that it currently offers a number of programs to reduce energy inefficiencies.¹¹ The Commission believes that energy conservation, energy efficiency, and demand-side management ("DSM") will become increasingly important for Kentucky. Governor Steven L. Beshear has identified a road map to energy

⁸ Application, Exhibit 7C, p.2.

⁹ Case No. 2011-00037, Application of Owen Electric Cooperative Corporation 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 Classes (Ky. PSC. February 29, 2012).

¹⁰ Case No. 2012-00030, Application of Big Sandy Rural Electric Cooperative Corporation for an Adjustment of Rates, (Ky. PSC. October 31, 2012).

¹¹ Response to First Data Request of Commission Staff dated December 5, 2012, Response to Item 9.d., filed December 18, 2012; and Response to Second Data Request of Commission Staff dated January 7, 2013, Response to Item 4, filed January 18, 2013.

independence for Kentucky in *Intelligent Energy Choices for Kentucky's Future*, November, 2008. That document states that energy efficiency should offset at least 18 percent of Kentucky's projected 2025 energy demand.¹² In addition, the Commission has stated its support for eliminating impediments to the consideration and adoption by utilities of cost-effective DSM strategies in its July 1, 2008 Report to the Kentucky General Assembly.¹³

In Case No. 2010-00238,¹⁴ a settlement agreement was reached wherein EKPC agreed to initiate a collaborative to evaluate and assess its energy diversification portfolio to expand deployment of renewable energy and DSM programs in conjunction with its distribution cooperatives and other stakeholders. As stated earlier, Fleming-Mason asserts that it currently offers a number of programs to reduce energy inefficiencies and that it actively works with the EKPC Steering Committee in developing new programs as well as expanding and enhancing current programs.¹⁵ The Commission encourages Fleming-Mason to continue to work with EKPC and other stakeholders in the collaborative to identify opportunities for new or expanded cost-effective DSM programs and encourages Fleming-Mason and all other electric energy

¹² *Intelligent Energy Choices for Kentucky's Future, Kentucky's 7-Point Strategy for Energy Independence*, Governor Steven L. Beshear, November, 2008, p. 22.

¹³ *Electric Utility Regulation and Energy Policy in Kentucky, A Report to the Kentucky General Assembly Prepared Pursuant to Section 50 of the 2007 Energy Act*, Kentucky Public Service Commission, July 1, 2008, at p. 3.

¹⁴ Case No. 2010-00238, *An Investigation of East Kentucky Power Cooperative, Inc.'s Need for the Smith 1 Generating Facility* (Ky. PSC, February 28, 2011). The members of the Collaborative are EKPC, its 16 owner-member cooperatives, the Sierra Club, the Kentucky Environmental Foundation, Kentuckians for the Commonwealth, and the Office of the Attorney General, by and through his Office of Rate Intervention.

¹⁵ Response to First Data Request of Commission Staff dated December 5, 2012. Response to Item 6.d. filed December 18, 2012.

providers to make a greater effort to offer cost-effective DSM and other energy-efficiency programs. With the rate design changes approved herein, the Commission has provided Fleming-Mason the opportunity to widen its DSM and energy-efficiency offerings and to vigorously pursue those plans, with a strong emphasis on customer awareness and education.

With regard to Fleming-Mason's DSM and energy-efficiency programs, the Commission is very much interested in the impacts of Fleming-Mason's DSM and energy-efficiency programs, in addition to the impacts of the changes in rate designs and the optional rate offerings that we are authorizing herein. Fleming-Mason will therefore be required to file annual reports which contain the status of each DSM and energy-efficiency program and certain information with regards to its members' responses to the rate changes approved herein as outlined below.

As to the establishment of the two optional voluntary TOD and Inclining Block Rate tariffs, Fleming-Mason's proposal appears reasonable and in line with similar voluntary residential and small rate offerings approved for other electric cooperatives, with the exception that the \$20 customer charge proposed by Fleming-Mason is higher than the \$18.36 level supported by the revised COSS. In its response to post-hearing information requests, Fleming-Mason supplied an alternate on-peak energy rate designed to achieve revenue neutrality if the TOD customer charge were set at the \$18.36 level supported by the revised COSS and the off-peak rate at \$.06000 per kWh were maintained.

FINDINGS

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that:

1. Fleming-Mason's proposal to increase its RSP customer charge from \$10.83 to \$15.00 is reasonable and should be approved, along with the corresponding \$.004010 decrease in the energy charge to maintain revenue neutrality.

2. The term and conditions and off-peak energy rate set forth in Fleming-Mason's proposed optional Residential and Small Power – Schedule RSP – Time of Day tariff are reasonable and should be approved, but the proposed customer charge of \$20 and an on-peak energy charge should be denied. The Commission finds that a customer charge of \$18.36, the amount reflected in Fleming-Mason's revised COSS,¹⁶ is reasonable and should be approved for this tariff. In order to maintain revenue neutrality, the on-peak energy charge of \$.12520 per kWh as set forth in Fleming-Mason's post-hearing information response is reasonable and should be approved.

3. Fleming-Mason's proposed optional Residential and Small Power – Schedule RSP – Inclining Block tariff is reasonable and should be approved.

4. Fleming-Mason's proposed revenue neutral increases in the Large Industrial Service demand charges and corresponding decreases in the energy rates are reasonable and should be approved.

5. Commencing in 2014, at the same time Fleming-Mason files its annual financial report with the Commission, Fleming-Mason should file annual reports with the Commission which contain the status of each DSM and energy-efficiency program and

¹⁶ Response to the Second Data Request of Commission Staff dated January 7, 2013, filed January 18, 2013, Response to Item 8.

which contain the following information with regard to the members' responses to the rate changes approved herein:

(a) the number of customers and sales volumes for all residential rate schedules and number of customers and sales volumes for the large industrial customer schedule;

(b) a recap of Fleming-Mason's customer awareness and education efforts, the number of individual inquiries by members about the optional rate schedules, and the number of contacts by customer service representatives concerning these same rate schedules with members who make contact with Fleming-Mason either in person or by telephone;

(c) budgets, actual expenditures, number of participants, and the estimated impact on sales of each DSM and energy-efficiency program approved; and

(d) the estimated implementation date for any program planned but not yet implemented as of the date of that report, and explanations for why any such planned programs have not yet been implemented. Subsequent-year reports should contain information further describing Fleming-Mason's efforts to implement the planned programs.

6. Upon request from Fleming-Mason, Commission Staff should conduct a technical conference to address any questions concerning the requirements set out in this Order.

IT IS THEREFORE ORDERED that:

1. Fleming-Mason's proposed \$20 customer charge and on-peak energy charge for the optional Residential and Small Power – Schedule RSP – Time of Day

tariff are denied and all other proposed rates and tariffs are approved for service rendered on and after the date of this Order.

2. The rates and tariffs set forth in the Appendix to this Order are approved for service rendered on and after the date of this Order, including an \$18.36 customer charge and a \$.12520 per KWh on-peak energy charge for the optional Residential and Small Power – Schedule RSP – Time of Day tariff.

3. Commencing in 2014, at the same time Fleming-Mason files its annual financial report with the Commission, Fleming-Mason shall file five copies of its DSM annual reports with the Commission which contain the status of each DSM and energy efficiency program and which contain the information as set out in Findings paragraph 5 above.

4. Upon request of Fleming-Mason, Commission Staff shall schedule a technical conference to address any questions concerning the requirements set out in this Order.

5. Within 20 days of entry of this Order, Fleming-Mason shall file with this Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets setting out the rates approved herein and reflecting the date of issue, the effective date, and that they were approved pursuant to this Order.

6. Any documents filed pursuant to ordering paragraph No. 3 of this Order shall reference the number of this case and shall be retained in the utility's general correspondence file.

By the Commission

ENTERED
JUL 02 2013
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2013-00369

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2012-00369 DATED **JUL 02 2013**

The following rates and charges are prescribed for the customers in the area served by Fleming-Mason Energy Cooperative Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

SCHEDULE RSP RESIDENTIAL AND SMALL POWER

Customer Charge per Month	\$ 15.00
Energy Charge per kWh	\$.08431

SCHEDULE RSP RESIDENTIAL AND SMALL POWER TIME OF DAY

Customer Charge per Month	\$ 18.36
Energy Charge per kWh	
On-Peak Hours	\$.12520
Off-Peak Hours	\$.06000

SCHEDULE RSP RESIDENTIAL AND SMALL POWER INCLINING BLOCK

Customer Charge per Month	\$ 15.00
Energy Charge per kWh	
0-300 kWh	\$.06681
301 – 500 kWh	\$.07681
Over 500 kWh	\$.10681

SCHEDULE LIS 4
LARGE INDUSTRIAL SERVICE

Customer Charge per Month	\$611.47
Demand Charge per kW	\$ 7.17
Energy Charge per kWh	\$.05342

SCHEDULE LIS 4B
LARGE INDUSTRIAL SERVICE

Customer Charge per Month	\$611.47
Demand Charge per Contract kW	\$ 7.17
Demand Charge Per kW in Excess of Contract	\$ 9.98
Energy Charge per kWh	\$.05342

SCHEDULE LIS 5
LARGE INDUSTRIAL SERVICE

Customer Charge per Month	\$1,221.76
Demand Charge per kW	\$ 7.17
Energy Charge per kWh	\$.04970

SCHEDULE LIS 5B
LARGE INDUSTRIAL SERVICE

Customer Charge per Month	\$1,221.76
Demand Charge per kW	\$ 7.17
Demand Charge Per kW in Excess of Contract	\$ 9.98
Energy Charge per kWh	\$.04970

SCHEDULE LIS 6
LARGE INDUSTRIAL SERVICE

Customer Charge per Month	\$1,221.76
Demand Charge per kW	\$ 7.17
Energy Charge per kWh	\$.04511

SCHEDULE LIS 6B
LARGE INDUSTRIAL SERVICE

Customer Charge per Month	\$1,221.76
Demand Charge per kW	\$ 7.17
Demand Charge Per kW in Excess of Contract	\$ 9.98
Energy Charge per kWh	\$.04511

SCHEDULE LIS 7
LARGE INDUSTRIAL SERVICE

Customer Charge per Month	\$1,221.76
Demand Charge per kW	\$ 7.17
Energy Charge per kWh	\$.04511

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