

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

THE CONSIDERATION OF THE RATEMAKING )	ADMINISTRATIVE
STANDARDS IDENTIFIED IN SECTION )	CASE NO. 203
111(d)(2)-(6) OF THE PUBLIC UTILITY )	(a) Kentucky Utilities Company
REGULATORY POLICIES ACT )	(b) Louisville Gas & Electric
)	Company
)	(c) Union Light, Heat and
)	Power Company
)	(d) Kentucky Power Company

ORDER

I. INTRODUCTION

The Public Utility Regulatory Policies Act of 1978 ("PURPA") requires the Public Service Commission to give consideration to and make determinations about the feasibility of adopting certain ratemaking standards identified in Section 111(d). The Commission has already conducted its hearings on the cost of service standard, and though it has not completed its assessment of that standard, it is ready to proceed with the consideration of the remaining five ratemaking standards listed in Section 111(d)(2)-(6) of PURPA.

The Commission believes that issues associated with these five ratemaking standards should be given as thorough consideration as possible. It recognizes that there may be long run benefits to both customers and utilities as well as many shorter run costs to both and it therefore deems it essential to focus attention on these costs and benefits during the hearings.

## II. STANDARDS TO BE CONSIDERED

### A. Declining Block Rates

Section 111(d)(2) of PURPA states: "The energy component of a rate, or the amount attributable to the energy component in a rate, charged by any electric utility for providing electric service during any period to any class of electric consumers may not decrease as kilowatt-hour consumption by such class increases during such period except to the extent that such utility demonstrates that the costs to such utility of providing electric service to such class which costs are attributable to such energy component decrease as such consumption increases during such period."

### B. Time-of-Day Rates

Section 111 (d)(3) of PURPA states: "The rates charged by any electric utility for providing electric service to each class of electric consumers shall be on a time-of-day basis which reflects the costs of providing electric service to such class of electric consumers at different times of the day unless such rates are not cost-effective with respect to such class."

Section 115(b) further clarifies the cost-effective criteria by stating that the time-of-day rates are "cost-effective with respect to each class if the long-run benefits of such rate to the electric utility and its electric consumers in the class concerned are likely to exceed the metering costs and other costs associated with the use of such rates."

C. Seasonal Rates

Section 111(d)(4) states: "The rates charged by an electric utility for providing electric service to each class of electric consumers shall be on a seasonal basis which reflects the costs of providing service to such class of consumers at different seasons of the year to the extent that such costs vary seasonally for such utility."

D. Interruptible Rates

Section 111(d)(5) states: "Each electric utility shall offer each industrial and commercial electric consumer an interruptible rate which reflects the cost of providing interruptible service to the class of which such consumer is a member."

E. Load Management Techniques

Section 111(d)(6) states: "Each electric utility shall offer to its electric consumers such load management techniques as the State regulatory authority has determined will -

- (a) be practicable and cost-effective,...
- (b) be reliable, and
- (c) provide useful energy or capacity management advantages to the electric utility."

Section 115(c) states that load management techniques shall be determined "to be cost-effective if -

- (1) such technique is likely to reduce maximum kilowatt demand on the electric utility, and

- (2) the long run cost-savings to the utility of such reductions are likely to exceed the long-run costs to the utility associated with implementation of such technique."

The Commission considers load management techniques to include the cycling of air conditioners, water heaters, and central heating systems, heat storage systems and storage water heaters. Further, it is interested in learning of other technologies that may be available and potentially beneficial for use in Kentucky.

### III. PURPOSES.

The Commission, in determining the appropriateness of implementing any of these standards, must consider whether the implementation of the standards would carry out the purposes of PURPA. These purposes, as listed in Section 101, are "to encourage (1) conservation of energy supplied by electric utilities; (2) the optimization of the efficient use of facilities and resources by electric utilities; and (3) equitable rates to consumers." The Commission would like to expand these purposes to include three more: (1) to minimize the impact of economic dislocations due to changing the rate structure; (2) to promote a rate structure which will assist the utility in its continued ability to earn a capital-attracting rate of return as well as to provide revenue stability from year to year; and (3) to determine rates which are simple, understandable, acceptable to the public, feasible to apply, and free of controversy as to their proper interpretation.

#### IV. SCHEDULE

The schedule for the consideration of the ratemaking standards is as follows:

1. June 15, 1981 - Prehearing conference
2. July 13, 1981 - Deadline for prefiled testimony by Union Light, Heat and Power
3. July 20, 1981 - Deadline for prefiled testimony by Kentucky Power
4. July 27, 1981 - Deadline for prefiled testimony by Kentucky Utilities
5. August 3, 1981 - Deadline for prefiled testimony by Louisville Gas and Electric
6. August 3, 1981 - Deadline for prefiled testimony by all other parties to hearings for Union Light, Heat and Power
7. August 10, 1981 - Deadline for prefiled testimony by all other parties to hearings for Kentucky Power
8. August 17, 1981 - Deadline for prefiled testimony by all other parties to hearings for Kentucky Utilities
9. August 24, 1981 - Deadline for prefiled testimony by all other parties to hearings for Louisville Gas and Electric
10. September 1, 1981 - Hearing: Union Light, Heat and Power
11. September 2, 1981 - Hearing: Union Light, Heat and Power
12. September 8, 1981 - Hearing: Kentucky Power
13. September 9, 1981 - Hearing: Kentucky Power
14. September 15, 1981 - Hearing: Kentucky Utilities
15. September 16, 1981 - Hearing: Kentucky Utilities
16. September 22, 1981 - Hearing: Louisville Gas and Electric
17. September 23, 1981 - Hearing: Louisville Gas and Electric

The prehearing conference and hearings will be held at the Commission's offices, 730 Schenkel Lane, Frankfort, Kentucky, beginning at 9:00 a.m.

It should be noted that two days of hearings have been scheduled for each of the covered utilities. However, if all five standards can be addressed in one day of hearings, then only one day will be required.

The Commission wants to point out the fact that there are some unique features in the procedure. First, there will be a pre-hearing conference for all parties to the hearing. This will allow the Commission to determine the extent of participation in the proceedings. The Commission can then make some preliminary judgment about whether enough time has been allocated to permit all views to be expressed and questioned. Also, the Commission will be able to clarify any issues or questions raised by this Order. In addition, it is expected at this time that the utilities will be able to identify someone in their organization as a contact person for any requests for data or information. Also, there could be further explanation of the rules for the discovery of information which follow in Section V of this Order. Finally, since the Commission intends to consider the feasibility of implementing the ratemaking standards in Section 111(d) by examining illustrative rates in the PURPA hearings, some agreement must be reached concerning which rate classes and their respective class revenue requirements are to be considered. This can be accomplished at the pre-hearing conference. Also note that the Commission intends to use as its test period calendar year 1979 to parallel the data promulgated under Section 133 of PURPA.

Another unique feature of the consideration procedure is the prefiling of all testimony before the hearings. This is an attempt to prevent the hearing process from being drawn out indefinitely. With the prefiling of testimony, direct examination and cross-examination can occur on the same hearing date.

#### V. RULES FOR THE DISCOVERY OF INFORMATION

The rules for the discovery of information for this proceeding will be essentially the same as those used for the cost of service proceeding. The rules are:

1. The Commission shall prepare a mailing list for each utility consisting of all of the interested parties in the proceeding shortly after the prehearing conference. It will be the responsibility of the Commission to keep this list updated.
2. All requests for information shall go directly to the party of whom the information is requested. Copies of the request shall be sent to all parties on the mailing list.
3. The responding party must reply in writing to the request for information within ten working days from the date of receipt of the request. One copy of the response to a request must be forwarded to the party making the request and another copy of the response shall be filed with the Secretary of this Commission.
4. The responding party, if it believes the entire request to be unreasonable, shall immediately forward the request and an explanation of why it is believed to

be unreasonable to the Secretary. The Commission will determine the issue of reasonableness and advise the affected parties of its decision. If a party finds only part of a request to be unreasonable, it shall respond to the balance of the request as directed herein and limit its referral to the Commission to that part which is considered to be unreasonable.

5. The expense of copying the information will be borne by the party making the request.

#### VI. PREFILING OF TESTIMONY

When prefiling testimony, the utility and intervenors in that utility's proceedings shall forward one copy of the testimony to each party on the previously mentioned mailing list, and eight copies to the Secretary of the Commission.

#### VII. TOPICS TO BE ADDRESSED IN PREFILED TESTIMONY

In order to focus the hearing, the Commission is providing a list of issues that it wants each utility company to address in its prefiled testimony. In addition, the Commission is requiring the utility companies to provide rates for its major rate classes with respect to each standard in its prefiled testimony. Such rates are for illustrative and discussion purposes only, but they will serve two important purposes: first, the company will demonstrate how it would go about determining the rates; second, points of potential differences of opinion - points involving subjective decisions and assumptions - will show up. In this way, the Commission can determine which information is presently available, which requires additional research, and which may not be available for some time in the future.



The topics to be addressed are the following:

A. General

(1) In order to limit the consideration, the Commission wants each company to identify the major (three or four) rate classes served by the company.

(2) Given a 1979 test year, the Commission asks for an estimate of the class revenue requirement for each of the classes identified in A(1).

B. Declining Block Rates

(1) For which of the rate classes listed in A(1) does the company have a declining block rate structure?

(2) The Commission asks that, assuming the standard in Section 111(d)(2) of PURPA is adopted, for the rate classes identified in B(1), the company

(a) determine what the flat energy rate would be, and

(b) describe how that rate should be calculated.

(3) Explain why the company has not implemented flat energy rates for the classes identified in B(1).

(4) If the company has any classes listed in A(1) that are not served by a declining block rate structure, the company shall:

(a) describe how the flat energy rate is determined for the class, and

(b) explain why the company decided not to use a declining block rate structure.

C. Time-of-Day Rate

(1) Suppose the Commission determines that time-of-day rates are cost-effective for the rate classes identified in A(1). On this supposition, each company is asked to state:

(a) What the time-of-day rates would be?

(b) How the rates should be determined?

(2) Would the implementation of time-of-day rates promote the purposes of PURPA?

(3) Would the implementation of time-of-day rates promote the other purposes enumerated by this Commission?

(4) What would be the long-run benefits of time-of-day rates to the utility and to the consumer?

Quantify these benefits when possible.

(5) What would be the metering and other costs associated with implementing time-of-day rates?

D. Seasonal Rates

(1) Suppose the Commission were to adopt and implement seasonal rates for the classes identified in A(1).

On this supposition, each company is asked to state:

(a) What the seasonal rates would be?

(b) How the rates should be determined?

(2) Would the implementation of seasonal rates promote the purposes of PURPA?

(3) Would the implementation of seasonal rates promote the other purposes enumerated by this Commission?

E. Interruptible Rates

(1) Suppose the Commission were to adopt and implement the interruptible rate standard. On this supposition each company is asked to state:

(a) What the interruptible rate would be for the commercial consumer? the industrial consumer?

(b) How the rates should be determined?

(2) Would the implementation of interruptible rates promote the purposes of PURPA?

(3) Would the implementation of interruptible rates promote the other purposes enumerated by this Commission?

F. Load Management Techniques

(1) Discuss the load management techniques that would likely benefit the company's energy and capacity management.

(2) Suppose the Commission determined that the load management techniques described in F(1) are cost-effective and decides to adopt and implement the standard. On this supposition each company is asked to state:

(a) What the load management rate or credit would be for the classes identified in A(1)?

(b) How the rate or credit should be determined?

(3) If the techniques discussed in F(1) are likely to reduce the maximum kilowatt demand, what would the long-run cost savings to the utility be for each kilowatt reduction?

(4) What are the long-run cost considerations of implementing the load management techniques? Provide dollar estimates for these costs when possible.

(5) Would the implementation of the load management techniques standard promote the purposes of PURPA?

(6) Would the implementation of the load management techniques standard promote the other purposes enumerated by this Commission?

The Commission understands that many of the above questions will be difficult to answer. However, the Commission feels that the information provided by the utility companies, will be extremely valuable to it in meeting its responsibilities under PURPA.

The utility companies should not feel that their prefiled testimony must be limited to just the questions listed in this section. If the companies foresee other practical or administrative obstacles to implementing any of these ratemaking standards, they should advise the Commission. Likewise, the Commission should also be advised of any benefits or advantages to implementation which may not have been addressed in the responses to the preceding questions.

The Commission would also be interested in securing advice as to how the standards can best be implemented, should it be determined to do so. Finally, if a utility believes additional research or study would be required before a final determination to adopt and implement a standard can be made, then the Commission should be provided an estimate of the time and effort necessary to perform such research and study.

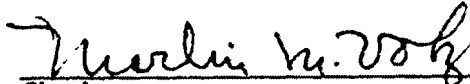
VIII. ORDER

IT IS ORDERED that the four PURPA covered utilities shall file with the Commission their responses to Section VII A(1) and (2) of this Order at the prehearing conference. It is the intention of this Commission that the amount of the class revenue requirements provided in response to Section VII A(2) of this document (page 9) will not be subject to debate but will be a common reference for all parties to the proceeding.

IT IS FURTHER ORDERED that each of the covered utilities prefile its response to the issues and questions in Section VII B through F of this document at the time specified in the schedule set out in Section IV of this Order and that each of them appear for the hearings as scheduled.

Done at Frankfort, Kentucky, this 19th day of May, 1981.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTESTED TO:

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Secretary