COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

TIME OF DAY TARIFF FILING BY LOUISVILLE GAS AND ELECTRIC COMPANY	)))	CASE NO. 8872

O R D E R

The federal Public Utility Regulatory Policies Act of 1978 ("PURPA") required state commissions to consider certain regulatory and ratemaking standards. One of the ratemaking standards to be considered was the implementation of time-of-day ("TOD") rates. More explicitly, the TOD ratemaking standard to be considered was stated in Section 111 (d)(3) of PURPA as follows:

> 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.

This Commission established Administrative Case No. 203, The Determinations with Respect to the Ratemaking Standards Identified in Section 111 (d)(1)-(6) of the Public Utility Regulatory Policies Act of 1978, to perform its required consideration of the TOD ratemaking standard. After extensive hearings, the Commission issued its determinations with regard to the ratemaking standards in its Order of February 28, 1982. The Commission's determination on the TOD ratemaking standard is found on page 30 of the Order and it states:

> The Commission finds it appropriate to implement the time-of-day rate standard. The record in this proceeding clearly shows that the companies experience daily and hourly variations in their costs, and while there was discussion in this proceeding about the likelihood that time-of-day rates would induce customers to shift some of their consumption from peak to off-peak, the Commission believes that such induced shifting is a secondary consideration. The primary consideration which argues for time-of-day rates is the requirement that a consumer bear the full cost, to the utility, of his consumption pattern.

Thus, the Commission found it appropriate to implement TOD rates primarily because they promoted the equity ratemaking objective. That is, since a utility company's costs to operate vary with the time of day, it is reasonable to use a TOD rate structure which recovers the utility's costs from the customers who caused those costs to be incurred.

The Commission was concerned about moving too rapidly to TOD rates and, to mitigate this concern, a four-phase plan of implementation was provided in the Order of February 28, 1982, in Administrative Case No. 203. Further, the Order created a Load Management Task Force to oversee the implementation of TOD rates. The Task Force, which has since been divided into a Load Management Steering Committee and a Load Management Technical Committee, is comprised of Commission staff, utility representatives and consumer representatives. These committees have met regularly during the course of the past 3 years to discuss any problems in the implementation plan, as well as other load management topics.

Phase 1 of the implementation plan required each of the four investor-owned electric utility companies in Kentucky to select a small group of large customers who would be placed on TOD rates. Louisville Gas and Electric Company ("LG&E") selected as participants, and the Commission concurred, all Industrial Power Rate ("LP") customers with an annual maximum demand of 5,000 kw or greater and all Large Commercial Rate ("LC") customers with an annual maximum demand of 2,500 kw or greater. Sixteen industrial power and 8 large commercial customers were included in the TOD study.

Phase 2 of the implementation plan called for 12 months of load research on the participating customers while those customers were continued to be billed under the existing rate structure which was not time differentiated. The purpose was to prepare a base of information to use for comparing the usage under TOD rates. At the same time that this base of information was being gathered, LG&E expended considerable effort to explain the TOD rate structure to its customers. For LG&E, the baseline period consisted of the 12 months ended October 1983.

Phase 3 of the implementation plan was the 12-month period during which the TOD rates were actually in place. However, in order to get the TOD rates approved, it was necessary to establish this docket to review the calculation of the rates and the likely impact of the rate structure on the customers. The First National Bank Building Partnership intervened in the proceeding. A hearing was conducted on September 15, 1983. In an Order issued in this case on October 28, 1983, the Commission approved the proposed TOD tariffs to become effective in November 1983.

Phase 4 of the implementation plan required each of the participating utilities to prepare a report comparing the 2 years of information gathered from the customers. In an Order issued in this docket on September 25, 1984, the Commission found it appropriate to keep the TOD tariffs in effect until the reports were completed and a final decision was reached concerning the fate of TOD rates. LG&E filed its report with the Commission on May 29, 1985. In the report, LG&E's basic conclusion is found on page 5 where it states:

> In summary, the load data does not support any shift in load from Phase 2 to Phase 3 of the experiment. A few customers have shown an interest in the time-of-day concept and may respond to such rates in the future. The possibility of attaining net benefits by applying time-of-day rates only to those prospective responsive (voluntary) industrial customers is an alternative. Large Commercial customers indicate that they lack the flexibility to shift loads. The efficiency gains (or benefits versus cost) associated with the Time-of-Day Rate Study have not been demonstrated by the data gathered during the experiment. Certainly an extension of time-of-day rates to smaller business customers appears to be premature at this time based on the customer's responses to time-of-day rates during the experiment.

The Commission has before it the study by LG&E and the other three participating utilities. The Commission needs to make a decision concerning the TOD rates. It would appear at this juncture that there are basically three options to consider.

The first option would be to make the TOD rate structure permanent and mandatory for those presently billed under the TOD rate structure. The second option is to terminate the TOD tariffs and revert back to the previous non-time-differentiated tariffs. The third option is to have the utilities allow each customer to have the option to choose whether they would prefer to be billed under a TOD rate structure or the previous non-time-differentiated rate structure.

The Commission after careful consideration disagrees to a certain degree with the conclusion reached by LG&E. It is understood that because of the experimental nature of the TOD rates there was not a significant shift of the customer's load to the off-peak period. It is also understood that it is difficult for some customers to change their operations to benefit from a TOD rate. However, as stated in the Commission's February 28, 1982, Order in Administrative Case No. 203, the shifting of load was of secondary consideration. The Commission is still inclined toward its earlier decision that a TOD rate structure is appropriate since it better reflects to the customer the cost that it is imposing on the utility. Further, the Commission notes that the TOD tariffs were reasonably well accepted by the customers when the TOD rates were imposed, although there were some particular problems noted by certain customers. One of the reasons for this acceptance was the extra effort put forth by the utilities to get to know their customers and explain the TOD rates to them. Although there were some costs involved in this effort, the Commission believes there was some benefit to having the utility get to know its customers better. Also, the Commission believes that the TOD rate has the additional benefit that it provides customers additional options to control their costs in the event the economy or the market for the products or services they provide should require such cost controls. Therefore, the Commission, in light of the above, finds that it is reasonable to keep LG&E's TOD tariffs, LP-TOD and LC-TOD, in effect for all those customers presently served under those tariffs.

However, before this decision is final the Commission believes that all of the participants and other interested parties should have the opportunity to express their comments to the Commission. Therefore, the Commission finds that the final report on the TOD experiment should be distributed by LG&E to all the participants. All of the participants, including the utilities and other interested parties, shall have the opportunity to provide written comments to the Commission by August 16, 1985. Comments should be sent to Mr. Forest Skaggs, Secretary, Public Service Commission, P. O. Box 615, Frankfort, Kentucky 40602; and a copy should also be sent to LG&E in care of Mr. John Hart, Jr., Vice President, Rate and Economic Research, P. O. Box 32010, Louisville, Kentucky 40232.

IT IS THEREFORE ORDERED that LG&E shall provide a copy of this Order and the TOD report to each of the customers currently billed under LP-TOD and LC-TOD. Comments on the TOD report and the Commission's proposed position on the continuance of TOD rates are due August 16, 1985.

IT IS FURTHER ORDERED that LG&E shall file five additional copies of the TOD report with the Commission in this docket.

Done at Frankfort, Kentucky, this 29th day of July, 1985.

PUBLIC SERVICE COMMISSION

Richard D. Heman Jr.
Chairman

Vice Chairman

did not participate
Commissioner

ATTEST:

Secretary