

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE NOTICE OF EAST KENTUCKY POWER )  
COOPERATIVE, INC. OF A REVISION TO ) CASE NO. 10369  
ITS WHOLESALE ELECTRIC POWER TARIFF )

O R D E R

On September 2, 1988, East Kentucky Power Cooperative, Inc. ("EKPC") filed a proposed revision to its Wholesale Power Tariff to provide for the calculation of monthly demand charges at the individual load centers of each of EKPC's 18 member cooperatives based on one of three wholesale power rate options to be selected by the member cooperative. Specifically, the proposed revision incorporates a new rate schedule - Section B - into EKPC's tariff.

The purpose of Section B is to provide more flexibility for EKPC's member distribution cooperatives to develop industrial and large power rates that are more competitive with other utilities throughout the nation.<sup>1</sup> According to EKPC, Section B rates would enable its member cooperatives to better attract and retain customers with load factors of less than 60 percent. Section B rates would accomplish this objective by eliminating the

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<sup>1</sup> Transcript, March 8, 1989, page 7.

ratchet provision presently contained in rate schedule Section C and replacing it with a premium to be charged on all demand in excess of contract demand.

Although the Commission agrees that the proposed revision of the wholesale power tariff will provide more rate design flexibility for EKPC's member cooperatives, it has two concerns. First, EKPC's stated intention to absorb any revenue deficiency resulting from Section B<sup>2</sup> may ultimately have an adverse effect on EKPC's wholesale electric rates and the retail rates of EKPC's member cooperatives. Second, the Commission's acceptance of Section B rates, which EKPC contends are cost based because they exceed marginal demand and energy costs,<sup>3</sup> might be construed as a departure from its traditional rate-making principles, in which rates are generally based on embedded costs.

EKPC has assured the Commission that a revenue deficiency resulting from Section B rates is highly unlikely. According to an analysis performed by EKPC to estimate the revenue loss to EKPC resulting from existing customers switching to Section B, Section B provides a potential annual revenue decrease of \$655,290. EKPC contends that the recent addition of AP Technoglass, a new customer in Elizabethtown, Kentucky, in Nolin Rural Electric

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<sup>2</sup> Response to the Commission Order dated November 14, 1988, Item 10.

<sup>3</sup> Tr., page 21.

Cooperative Corporation's service area, will offset any such revenue deficiency.<sup>4</sup>

EKPC has also presented recent embedded time-differentiated and marginal cost-of-service studies. The marginal cost study shows EKPC's marginal cost of capacity to be approximately \$4.16 per kilowatt, and its marginal cost of energy to be approximately 1.7 cents per kilowatt-hour. Embedded costs are shown to be, on average, 46.7 mills per kwh in the winter and 38.7 mills per kwh in the summer.<sup>5</sup> This wide differential between embedded and marginal costs exists because EKPC has no plans to add new generation units until the mid-1990s. The Commission recognizes that the cost differential will begin to narrow as the need for additional generation draws closer. The Commission also recognizes, in this specific case, that rates exceeding marginal costs, although below embedded costs, are in the best interest of EKPC's member cooperatives and the cooperatives' retail customers. However, given the Commission's concern regarding marginal cost-based rates, it will monitor the difference between marginal costs and Section B rates. At present, marginal costs are significantly less than Section B rates, which include a demand charge of \$5.39 per kilowatt of contract demand, a demand charge of \$7.82 per kilowatt for billing demand in excess of contract demand, and an energy charge of 2.422 cents per kilowatt-hour.

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<sup>4</sup> Ibid., page 15.

<sup>5</sup> Ibid., pages 19-20.

Should this situation significantly change, however, the Commission will be compelled to reexamine the Section B Rate Schedule.

The Commission, having considered the evidence of record and being sufficiently advised, is of the opinion and finds:

1. The revision to EKPC's wholesale electric power tariff should be accepted.

2. The Section B Rate Schedule should be monitored to ensure against any negative impact on EKPC's member cooperatives or the cooperatives' retail customers.

3. EKPC should submit, one year from the date of this Order, a report which lists the customers which are being served under the provisions of Section B, identifies whether these customers are existing customers switching to Section B from Sections A or C or new customers, and provides the associated loads of these customers and the revenue impact these Section B loads have on EKPC and the appropriate member cooperatives.

4. EKPC should submit, concurrently with its biennial report of avoided cost data as required by 807 KAR 5:054, Section 5(1)(a), a study which demonstrates that for the subsequent 2-year period Section B rates exceed marginal costs. If at that time EKPC cannot submit such a study, it shall so advise the Commission.


IT IS THEREFORE ORDERED that:

1. EKPC's revision of wholesale power tariff as filed on September 2, 1988 be and hereby is accepted. EKPC shall file with the Commission a signed copy of the revised tariff within 20 days of the date of this Order.

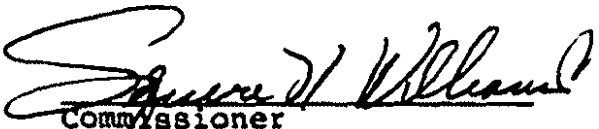
2. EKPC shall file with the Commission the reports and studies as described herein.

Done at Frankfort, Kentucky, this 11th day of April, 1989.

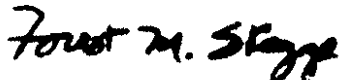
PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:



Executive Director