

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF OWEN ELECTRIC )  
COOPERATIVE, INC. FOR AN ADJUSTMENT TO )  
ITS RETAIL ELECTRIC POWER TARIFFS ) CASE NO. 94-408

O R D E R

On December 2, 1994, Owen Electric Cooperative, Inc. ("Owen") filed an application to reduce its rates for retail electric service by \$2,290,437 annually effective January 1, 1995. The proposed rate reduction was designed to pass on to Owen's customers a decrease in power costs proposed by Owen's wholesale power supplier, East Kentucky Power Cooperative, Inc. ("East Kentucky").<sup>1</sup> The decrease in power costs proposed by East Kentucky became effective January 1, 1995, subject to further modification, and Owen's proposed rates became effective simultaneously under the same condition.

Intervening in this matter was the Attorney General of the Commonwealth of Kentucky, by and through his Public Service Litigation Branch ("AG"). A public hearing was held April 25, 1995 at the Commission's offices in Frankfort, Kentucky.

On July 25, 1995, the Commission approved a rate decrease for East Kentucky which was greater than it had proposed. Consequently, Owen's power costs will decrease by an additional

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<sup>1</sup> Case No. 94-336, The Application of East Kentucky Power Cooperative, Inc. for an Adjustment to Its Wholesale Power Tariffs.

\$451,188 annually for a total decrease of \$2,741,625 annually. The manner in which this total decrease is passed on to Owen's customers through reduced rates is discussed below.

#### ALLOCATION AND RATE DESIGN ISSUES

Owen proposed to reduce its rates to reflect the full amount of East Kentucky's wholesale rate reduction. Owen utilized an "equal reduction per Kwh" methodology which provides retail customers the same reduction per Kwh for all energy charges. This approach results in a straight pass-through of the East Kentucky decrease with no change to Owen's existing rate design and no impact on its financial condition. Owen was one of fourteen customers of East Kentucky utilizing this methodology while three others utilized the "equal percentage of revenue" methodology.

The AG recommends that the decrease be allocated on an equal percentage of revenue approach. The AG contends that this is the most equitable approach and its use here, in the absence of a cost-of-service study, is analogous to its use by the Commission in general rate cases when no cost-of-service studies are acceptable for revenue allocation purposes. The AG also questioned the continuation of the Electric Thermal Storage ("ETS") program and urged, if the program is continued, that retail ETS rates not be set below East Kentucky's wholesale off-peak energy rates.

In rebuttal, Owen contended that both revenue allocation methodologies are reasonable and that one should not be favored over the other. Owen also supported East Kentucky's ETS program and urged that the existing ETS rate structure be maintained.

Based on the evidence of record and being otherwise sufficiently advised, the Commission will approve the "equal reduction per Kwh" approach for allocating the decrease to retail rate classes for the following reasons. (1) The wholesale rate decrease from East Kentucky consists of decreased energy charges (per Kwh); therefore, an equal reduction per Kwh is a reasonable approach for the retail pass-through of the wholesale power cost decrease. (2) When a change in retail rates is caused by a change in only one expense item, purchased power, it is neither necessary nor appropriate to use a "percentage of revenue" allocation methodology. The Commission has at times utilized such a methodology where revenues are adjusted to reflect changes in multiple expenses. Here, however, revenues are being changed to reflect only one expense, purchased power. Under these circumstances, it is logical and reasonable that a change in cost be identified and reflected in the resulting change in retail rates.

The ETS rate issue is essentially moot due to the Commission's decision in East Kentucky's rate case to set the wholesale off-peak energy rates well below the retail ETS rate. The Commission, therefore, will approve the continuation of the existing ETS rate structure.

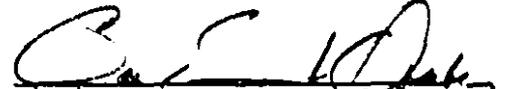
IT IS THEREFORE ORDERED that:

1. The rates in Appendix A, attached hereto and incorporated herein, are approved for service rendered on and after the date of this Order.

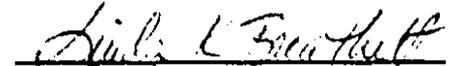
2. Within 20 days of the date of this Order, Owen shall file with the Commission revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 26th day of July, 1995.

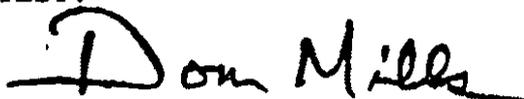
PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 94-408 DATED July 26, 1995.

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

SCHEDULE I  
FARM AND HOME

Rate:

All KWH \$ .05987 Per KWH

SCHEDULE IA  
FARM AND HOME OFF-PEAK  
MARKETING RATE

Rate:

All KWH \$ .03592 Per KWH

SCHEDULE I  
FARM AND HOME T-O-D

Rate:

On-Peak Rate  
All KWH/Month \$ .05987 Per KWH

Off-Peak Rate  
All KWH/Month .03592 Per KWH

SCHEDULE I  
SMALL COMMERCIAL

Rate:

All KWH \$ .05987 Per KWH

SCHEDULE II  
LARGE POWER

Rate:

All KWH \$ .04031 Per KWH

SCHEDULE III  
SECURITY LIGHTS

Rate:

Installed on existing pole where 120 volts are available	\$ 4.70
One Pole Added	6.34
Two Poles Added	7.98
Three Poles Added	9.62
Four Poles Added	11.26

SCHEDULE VIII  
LARGE INDUSTRIAL RATE LPC 1

Rate:

Customer Charge	\$1,428.00
Energy Charge	.02748 Per KWH

SCHEDULE IX  
LARGE INDUSTRIAL RATE LPC 2

Rate:

Customer Charge	\$2,855.00
Energy Charge	.02248 Per KWH

SCHEDULE X  
LARGE INDUSTRIAL RATE LPC 1-A

Rate:

Customer Charge	\$1,428.00
Energy Charge	.02548 Per KWH