

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF GRAYSON RURAL)
ELECTRIC COOPERATIVE CORPORATION) CASE NO. 98-455
FOR AN ADJUSTMENT OF RATES)

O R D E R

IT IS ORDERED that the Attorney General shall file the original and 8 copies of the following information with the Commission, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information herein has been provided previously, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. The information requested herein shall be filed on later than April 6, 1999.

1. Refer to the direct testimony of David H. Brown Kinloch, page 14. Mr. Brown Kinloch contends that promoting the installation of heatpumps, geothermal heatpumps, and electric thermal storage systems are marketing expenses and are not necessary to provide customers with electric service. He recommends that these expenses be disallowed for rate-making purposes.

a. When compared to other types of electric heating systems, are heatpumps, geothermal heatpumps, and electric thermal storage systems generally more efficient? Explain the response.

b. What energy sources other than electricity are available for home or business heating in Grayson's service territory?

c. Are geothermal heatpumps and electric thermal storage systems examples of the energy conservation approach known as valley filling ?

d. Is valley filling a legitimate energy conservation program? If not, explain in detail why not and supply copies of any recent studies supporting this position.

e. Can the promotion of geothermal heatpumps and electric thermal storage systems be classified as forms of both energy conservation advertising and promotional advertising? Explain the response.

2. Refer to the Brown Kinloch Direct Testimony, Exhibit DHBK-5.

a. Explain in detail how the end of test-year customer increase was determined.

b. Grayson's proposed revenue from residential customer charges is \$1,240,966 (Application Exhibit J, page 2 of 10). Explain the difference between this figure and the \$4,372,617 shown in Exhibit DHBK-5 as Class Non-Power Revenue. Explain why the \$4,372,617 should be used to compute the non-power revenue per customer instead of the \$1,240,966 residential customer charge.

3. Concerning the customer charges, Mr. Brown Kinloch indicates that some of the items contained in Customer Accounting and Services are inappropriate for

inclusion, such as Sales Expenses and Administrative and General Expenses. State the reason(s) for excluding each of the items.

4. Mr. Brown Kinloch indicates that he has recalculated the appropriate customer charge levels in Exhibit DHBK-2. The total cost per rate class shown on Exhibit DHBK-2 is \$13,351,249. The corresponding amount in Grayson's Application Exhibit R, page 7 of 14, is \$12,731,190. The difference is the Customer Charge Acctg & Serv line item added by Mr. Brown Kinloch. Have certain consumer accounting and services expenses been counted twice?

a. If no, explain why Mr. Brown Kinloch's total cost per rate class is higher than Grayson's.

b. If yes, recalculate and submit revised Exhibits DHBK-2 and DHBK-6.

5. The Brown Kinloch Direct Testimony, at page 10, indicates that his cost-of-service study results in a customer charge of \$8.99 for the residential class and \$7.45 for the commercial class. When compared to the current charge of \$7.86, one of these is above the current charge and one is below.

a. If Mr. Brown Kinloch recalculates Exhibits DHBK-2 and DHBK-6 in response to Item 4(b), above, will one customer charge still be above and one below the current customer charge?

b. Explain the logic behind Mr. Brown Kinloch's statement that, "Since one is above and one is below, I am recommending that no change be made in the Grayson customer charges in this case."

c. Mr. Brown Kinloch also states that, To increase the charge would send the wrong price signals to Grayson customers.

(1) Explain why this doesn't contradict Mr. Brown Kinloch's earlier statement on page 7 of his testimony that, When variable charges are set too low, an incorrect price signal is sent to customers, which encourages them to waste energy.

(2) Isn't one of the principles of rate design to provide economic incentives for promoting efficient use of service, i.e., to attempt to price service at or close to the marginal cost of those services?

Done at Frankfort, Kentucky, this 23rd day of March, 1999.

By the Commission

ATTEST:

Executive Director