

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF OWEN ELECTRIC COOPERATIVE CORPORATION TO FOR AN ORDER AUTHORIZING A CHANGE IN RATE DESIGN FOR ITS RESIDENTIAL AND SMALL COMMERCIAL RATE CLASSES, AND THE PROFFERING OF SEVERAL OPTIONAL RATE DESIGNS FOR THE RESIDENTIAL RATE CLASSES)))))))	CASE NO. 2011-00037
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O R D E R

On May 6, 2011, Owen Electric Cooperative Corporation (“Owen”) tendered an application seeking approval to adjust the rates of its residential and small commercial customer classes. By Commission letter dated May 25, 2011, Owen was notified of deficiencies in its application regarding the filing requirements of 807 KAR 5:001, Section 10(6). On May 31, 2011, Owen submitted the information necessary to cure its filing deficiencies and its application was considered filed as of that date. On June 10, 2011, an Order was issued establishing May 31, 2011 as the application’s filed date and setting forth a procedural schedule for processing this case.

Owen proposes to modify the rate designs of its residential and small commercial customer classes with a neutral impact on its revenues. Owen seeks to make these changes so that its rates better match its cost of service, specifically, to increase the level of fixed costs recovered through the fixed (customer) charges in its residential and small commercial customer rate schedules. Owen seeks to implement these rate design changes in order to minimize potential revenue erosion that could occur from pursuing Demand-Side Management (“DSM”) and energy efficiency programs on a

larger scale than it has previously done. Owen also seeks approval to offer several voluntary rate schedules to residential customers as options to its basic Farm and Home residential rate schedule.

The Attorney General of the Commonwealth of Kentucky ("AG") is the only intervenor in this proceeding. Owen responded to two information requests from the AG and three requests from Commission Staff ("Staff"). The AG responded to one information request from Owen and one request from Staff. An evidentiary hearing in this matter was held on November 1, 2011. Due to issues raised by the AG at the hearing regarding Owen's notice of its filing, a second notice was published and a second hearing was held on January 11, 2012, in order to take comments from interested members of the public. No members of the public attended the latter hearing to provide comments.

Based on the May 31, 2011 filed date of Owen's application, the 10-month statutory period in which the Commission must rule on the case expires March 31, 2012. Owen's responses to data requests made at the November 1, 2011 hearing were filed November 14, 2011. The post-hearing briefs of both Owen and the AG have been received and the matter is now submitted for a decision.

TEST PERIOD

Owen proposes to use the 12-month period ending December 31, 2009 as the historic test period to determine the reasonableness of its proposed rates. The AG did not object to the proposed test period or suggest an alternative test period. While this test period, being 16 months old at the time of Owen's filing, is not as current as is typical, in the matter of a revenue neutral rate application in which adjustments to

revenues and expenses are not at issue, the Commission finds the use of this proposed test period to be reasonable.

Due to the fact that it is not seeking an increase in revenues in this proceeding, Owen requests waivers from several of the filing requirements applicable to general rate applications, including those pertaining to the determination of its revenue requirement. Those waiver requests include the requirement to file a summary of its determination of its revenue requirement; reconciliation of the rate base and capital used to determine its revenue requirement; chart of accounts; and independent auditor's report.¹ The Commission finds that Owen has established good cause for a waiver of these filing requirements and that these waiver requests should be granted.

OWEN'S PROPOSALS

Owen proposes to shift recovery of fixed costs from the energy charges to the customer charges of its residential and small commercial rate classes in several steps over a multi-year period. In its application, Owen proposes to increase its residential customer charge over five years from \$11.30 to \$25.00 and, over four years, increase its small commercial customer charge from \$13.34 to \$35.00.² These amounts reflect Owen's cost-of-service study which shows that its monthly customer-related costs for residential and small commercial customers are \$27.66 and \$35.71, respectively.³ With each increase in these customer charges, Owen will reduce the energy charges for the two rate classes so that there is no net impact on revenues.

¹ Owen's application at 3.

² Id., Exhibit 2.

³ Prepared Testimony of James R. Adkins at 4.

Owen proposes three optional time-of-day (“TOD”) rates and an optional inclining block rate for residential customers which are intended to assist customers in managing their energy costs.⁴ The proposed TOD rate offerings’ customer charges are \$25.00, with energy charges that vary based on the number and availability of off-peak or shoulder hours in which the rates are lower than in on-peak hours. For the inclining block rate offering, Owen proposes a customer charge of \$15.78 with increasing energy charges for usage levels of 0 to 300 kWh, 301 to 500 kWh, and all usage in excess of 500 kWh.

Although Owen is generally interested in having its rates better reflect its cost of service, the main reason for the proposed redesign of its rates is to recover a greater portion of fixed costs through the fixed charges in its rates, which, according to Owen, reduces its exposure to revenue erosion.⁵ Owen makes this proposal to minimize potential reductions in energy sales revenues that may occur as a result of increasing the scope, number and emphasis on the DSM and energy efficiency programs offered to its members. Historically, Owen has offered members the following programs: (1) button-up home weatherization; (2) energy conservation tips; (3) direct control of water heaters and air conditioners; (4) free home energy audits; (5) high-efficiency heating, ventilation, air conditioning system and water heater rebates; (6) compact fluorescent light bulbs provided for replacement lighting; and (7) Touchstone Energy Home programs.⁶

⁴ Application at 5.

⁵ Prepared Testimony of Mark A. Stallons at 8.

⁶ Response to Commission Staff’s First Request for Information, Item 11.b.

In addition to its historical programs, Owen initiated a Beat the Peak pilot program and three Self-Healing grid projects on a pilot basis in 2011.⁷ Under the Beat the Peak program, Owen is analyzing impacts on customers' usage in 100 homes being provided with in-home display units plus direct communication with the utility, as well as 100 homes that were provided only the equipment needed for direct communication. The Self-Healing pilots include (1) installing communication switches on Owen's distribution system in order to provide outage data to its headquarters, which is expected to produce a 50 percent reduction in outage durations, and (2) two industrial projects in which redundant or backup distribution facilities are installed to eliminate the need for customer-owned diesel generators, which are run as a backup source of electricity during power outages.

Owen also began work in 2011 on smart grid projects to upgrade its supervisory control and data acquisition, or SCADA, system, and to enhance its communications network. Both projects are expected to be completed by the end of 2012. During 2012, Owen will implement an integrated volt var control program which is expected to reduce feeder voltage drops and lower substation voltage and kWh losses.⁸ This will involve installing sensors, capacitors and regulators throughout its distribution system. Owen will also be rolling out other pilot programs in 2012 including a Smart Home program in which a participant's home will be equipped with a smart meter, which, through a ZigBee communications system, will interact with a home energy network that includes

⁷ Stallons Prepared Testimony at 17-18.

⁸ Id., at 18.

smart phones, smart switches, in-home display, an energy dashboard, smart thermostat and smart appliances.

In conjunction with its increased emphasis on DSM and energy efficiency as a means for customers to better manage their utility bills, Owen initiated a consumer education and communications plan in 2011.⁹ The first step in this plan involved training its customer service representatives. The second step, which it plans to initiate after it receives a decision in this case, involves communicating with and educating its members. This will begin with “mass marketing” through bill inserts and messages in Kentucky Living magazine; later, it will transition to targeted education of members whose usage best fits one of the optional rates being offered. In 2011, Owen also unveiled its Energy Innovation Vision, which describes to employees, customers, community leaders and other stakeholders how Owen intends to address increases in the cost of providing service, improving its service, and maintaining a high level of customer satisfaction.¹⁰

POSITIONS OF THE PARTIES

The AG did not address Owen’s plans for increasing the number and scope of its DSM and energy efficiency programs. He opposes the proposed rate design changes, however, more specifically opposing Owen’s proposed customer charge increases. The AG takes exception to the levels of customer-related costs that Owen calculates and offers as support for the proposed increases in the residential and small commercial

⁹ Owen's application, Exhibit 14.

¹⁰ Id., Exhibit 15.

customer charges.¹¹ He also disagrees with the reasons offered by Owen as support for its proposed rate design changes, claiming that they run contrary to traditional economic theory and competitive pricing models. The AG contends that Owen, as a “public service company,” has an obligation and duty to initiate and promote cost-effective conservation and energy efficiency programs irrespective of having any financial incentives to do so, which is how the AG characterizes Owen’s proposed customer charge increases.¹²

The AG argues that customer charges for Owen’s proposed TOD rate schedules should not be established as proposed, but should be set at levels that are more in line with the existing residential customer charge. He is critical of Owen’s proposed inclining block optional rate schedule, claiming that the proposed customer charge of \$15.78 is too high and that the proposed per-kWh energy charge is too low.

In its rebuttal, Owen criticizes the AG’s position, stating that his arguments on economic theory and competitive pricing models indicate that he fails to recognize the changes that have occurred in the electric utility industry in the last 15 to 20 years, particularly for distribution cooperatives.¹³ Owen also disputes the AG’s position on the appropriate levels of customer-related costs that should be recoverable through its customer charges. Finally, Owen claims the AG’s position is at odds with Commission statements on appropriate customer charge levels in the recently concluded general

¹¹ Direct Testimony and Schedules of Glenn A. Watkins at 3.

¹² *Id.*, at 14.

¹³ Rebuttal Testimony of Mark A. Stallons at 1-2.

rate cases of Meade County Rural Electric Cooperative Corporation¹⁴ and Delta Natural Gas Company.¹⁵

DISCUSSION OF ISSUES

The Commission endorses Owen's plans to expand the number and scope of its DSM and energy efficiency offerings and encourages Owen to vigorously pursue those plans, with a strong emphasis on customer awareness and education. Contrary to one aspect of those plans, however, we find that Owen's targeted education to members whose usage indicates that an optional rate may best fit their needs should begin concurrent with the beginning of the mass marketing education of its members.

Regarding Owen's proposed rate design changes, the Commission concludes that, for an electric cooperative that is strictly a distribution utility, the argument that there is a need to guard against the revenue erosion that can occur due to decreases in sales volume that accompanies the implementation or expansion of DSM and energy efficiency programs has merit. We also conclude, in conjunction with Owen's proposed expansion of its programs, that the potential reduction in sales volume provides strong reasons for increasing customer (fixed) charges in order to improve the utility's recovery of its fixed costs.

While the evidence provided by Owen could support the approval of its proposals as filed, the evidence offered by the AG, together with historical Commission practice, persuades us that a more gradual approach is warranted. The Commission appreciates

¹⁴ Case No. 2010-00222, Application of Meade County Rural Electric Cooperative Corporation to Adjust Electric Rates, (Ky. PSC Feb. 17, 2011).

¹⁵ Case No. 2010-00116, Application of Delta Natural Gas Company, Inc. for an Adjustment of Rates (Ky. PSC Oct. 21, 2010).

the concerns and issues raised by the AG. They are both relevant and valid, and while the decision in this Order reflects our general agreement with Owen's arguments in favor of its rate design proposals, the results of that decision have been tempered in part due to those issues and concerns.

Rate Changes

Having thoroughly considered Owen's rate design proposals, the arguments in favor thereof and those in opposition, the Commission finds it reasonable to approve a three-step change in rates for both the residential and small commercial customer classes. The first step, or rate change, will be effective for service rendered on and after the date of this Order. The second and third steps will be effective 18 and 36 months, respectively, thereafter. Owen will be permitted to increase its residential customer charge from \$11.30 to \$20.00 with three equal increases of \$2.90, with the initial increase from \$11.30 to \$14.20. With each increase in the customer charge, there will be a concurrent decrease in the energy charge in order to maintain revenue neutrality.¹⁶ The increase in the small commercial customer charge will be from \$13.34 to \$25.00, in three nearly equal steps (\$3.88 or \$3.89) over 36 months, with concurrent decreases in that class's energy charge, also to maintain revenue neutrality.¹⁷

The Commission also finds it reasonable to approve Owen's proposal to offer three optional TOD residential rate schedules and an optional residential inclining block

¹⁶ The energy charges reflect the lower fuel cost in Owen's base rates approved in Case No. 2010-00507, An Examination of the Application of the Fuel Adjustment Clause of Owen Electric Cooperative Corporation, Inc. from November 1, 2008 through October 31, 2010 (Ky. PSC May 31, 2011).

¹⁷ The decision to authorize a three-step change in rates spread over 36 months is, in part, a response to the concerns expressed by the AG. It is also indicative of the Commission's long-held adherence to the ratemaking principle of gradualism.

rate schedule. The customer charges for the TOD schedules will be set at \$20.00 to be consistent with the third-step customer charge for the residential class with the energy charges increased to offset the lower customer charges.

The rates for the three-step adjustments described herein and for the TOD and inclining block optional rate offerings are set forth in the Appendix to this Order. They should be set out in Owen's tariffs in the same format that was used for the proposed rates contained in its application.

Timing, Monitoring and Reporting

Given the extent of the change in cost recovery that is being approved for Owen, the Commission has determined that there should be fewer changes in rates and that they should occur at less frequent intervals than Owen has proposed, at least for purposes of this case. The Commission is very much interested in Owen apprising us of the impacts of its DSM and energy efficiency programs in addition to the impacts of the changes in rate designs and the optional rate offerings we are authorizing. In order to monitor those impacts, we find that Owen should be required to file annual reports which contain the status of each DSM and energy efficiency program and certain information on its members' response to the rate changes it has implemented. These reports will include (a) the number of customers and sales volumes for all residential rate schedules and the small commercial schedule, (b) a recap of Owen's customer awareness and education efforts, plus the number of individual inquiries by members about the optional rate schedules and the number of contacts by customer service representatives concerning these same rate schedules with members who make contact with them in person or by telephone, (c) budgets, actual expenditures, number

of participants, and the estimated impact on sales of each DSM and energy efficiency program approved, and (d) the estimated implementation date for any program not implemented as of that report and, ultimately, an explanation of the “slippage” in any implementation dates in subsequent reports. These reports will be filed at the same time Owen files its annual financial report with the Commission, with the first report due in 2013.

Within six months after the third step rate change is implemented in 36 months, Owen shall submit a report, or reports, which provide a thorough evaluation of the impacts of the rate changes and the impacts of its DSM and energy efficiency programs over the first 30 months after the issuance of this Order. This filing will also include an application containing testimony which, among other things, will explain what Owen proposes going forward concerning potential further rate design changes as well as possible expansion of, or additions to, its menu of DSM and energy efficiency programs.

The Commission recognizes that Owen may want further direction regarding the details of the annual reporting discussed above. Consequently, Commission Staff will contact Owen and the AG within a reasonable time after the issuance of this Order, to schedule a meeting for the purpose of discussing those details and insuring that there is no misunderstanding about our expectations for those annual filings by Owen.

ORDERING PARAGRAPHS

The Commission, based on the evidence of record and the findings contained herein, HEREBY ORDERS that:

1. The rates and charges proposed by Owen are denied.
2. The rates and charges for Owen, as set forth in the appendix hereto, are

the fair, just, and reasonable rates for Owen, and these rates are approved for service rendered on and after the date of this Order.

3. Owen shall file annual reports with the Commission, as described herein, on its DSM and energy efficiency programs and its revised residential and small commercial rates as well as its new optional residential rate offerings, such reports to be filed concurrent with the filing of its annual financial report, with the first report due in 2013.

4. Owen shall, within six months of implementing step three of the three-step rate adjustments authorized herein, file its reports(s) on the impacts of its DSM and energy efficiency programs and the revised rates and optional rate offerings approved herein, covering a period consisting of the first 30 months after issuance of this Order.

5. Within 10 days after the time for appeals of this Order has passed, the Commission Staff will contact Owen and the AG to make arrangements for the meeting, described herein, concerning the annual informational reports which Owen will be filing with the Commission

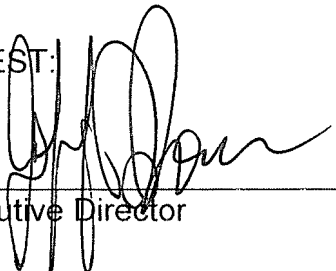
6. Within 20 days of the date of this Order, Owen shall file with this Commission its revised tariffs setting out the rates authorized herein, reflecting that they were approved pursuant to this Order.

7. Owen's request for a waiver of certain filing requirements for a general adjustment of rates as discussed herein is approved.

By the Commission

ENTERED PA
FEB 29 2012
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2011-00037

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2011-00037 DATED **FEB 29 2012**

The following rates and charges are prescribed for the customers served by Owen Electric Cooperative Corporation. 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 1 - FARM AND HOME

<u>Rate Period</u>	<u>Per Month Customer Charge</u>	<u>All kWh</u>
Step One	\$14.20	\$.08545
Step Two	\$17.10	\$.08280
Step Three	\$20.00	\$.08015

SCHEDULE 1 – SMALL COMMERCIAL

<u>Rate Period</u>	<u>Per Month Customer Charge</u>	<u>All kWh</u>
Step One	\$ 17.23	\$.08598
Step Two	\$ 21.12	\$.08386
Step Three	\$ 25.00	\$.08174

SCHEDULE 1-B1 FARM & HOME TIME-OF-DAY

Customer Charge per Month	\$ 20.00	
Energy Charge per kWh		
On-Peak Hours		\$.11859
Off-Peak Hours		\$.05789

SCHEDULE 1-B2 FARM & HOME TIME-OF-DAY

Customer Charge per Month	\$ 20.00	
Energy Charge per kWh		
On-Peak Hours		\$.10101
Off-Peak Hours		\$.05789

SCHEDULE 1-B3 FARM & HOME TIME-OF-DAY

Customer Charge per Month	\$ 20.00	
Energy Charge per kWh		
On-Peak Hours		\$.09980
Off-Peak Hours		\$.05789
Shoulder Hours		\$.07539

SCHEDULE 1-D FARM & HOME INCLINING BLOCK

Customer Charge per Month	\$ 15.78	
Energy Charge per kWh		
0-300 kWh		\$.06309
301-500 kWh		\$.08559
Over 500 kWh		\$.11559

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