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December 27, 2007

RE: Case No. 2006-00472

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,

A handwritten signature in black ink, appearing to read "Beth O'Donnell".

Beth O'Donnell
Executive Director

BOD/rs
Enclosure

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

GENERAL ADJUSTMENT OF ELECTRIC RATES)	CASE NO.
OF EAST KENTUCKY POWER)	2006-00472
COOPERATIVE, INC.)	

O R D E R

On December 5, 2007, the Commission issued an Order authorizing East Kentucky Power Cooperative, Inc. ("EKPC") to increase its rates to generate additional annual revenues of \$19.0 million. The Commission approved EKPC's proposal to allocate the revenue increase to its rate classes based on the total revenue currently recovered from the classes.¹

On December 13, 2007, the Kentucky Industrial Utility Customers, Inc. ("KIUC") filed a petition for rehearing. KIUC sought rehearing on the approach utilized to allocate the increase in revenues to rate classes and advocated that the Commission adopt, on a prospective basis, a demand-related revenue allocation approach as proposed by KIUC during this proceeding.

In support of its petition, KIUC argued that its demand-related revenue allocation was the only proposal in the record that had a cost-of-service basis. While acknowledging that EKPC performed a cost-of-service study in this case, KIUC noted that EKPC stated it did not rely on the cost-of-service study when developing the revenue allocation proposal. KIUC contended that EKPC's final rates should be based

¹ December 5, 2007 Order at 38.

on cost causation in order to send proper pricing signals and encourage the efficient use of electric power. KIUC expressed concern that the Commission had apparently considered the fact that KIUC had not objected to EKPC's proposed revenue allocation approach when the interim revenue increase had been authorized on April 1, 2007. KIUC stated it was not possible at the time of the interim increase to oppose the revenue allocation approach because the Commission had expressly prohibited at that time any evidence or argument on issues other than the emergency rate relief. KIUC also argued that the Commission should give consideration to the fact that EKPC, the Attorney General ("AG"), and KIUC had reached consensus on the revenue allocation issue that was reflected in both the August 31, 2007 Joint Stipulation and Recommendation ("Joint Stipulation") and the brief jointly filed by the parties.²

On December 20, 2007, EKPC filed comments stating it did not oppose KIUC's petition for rehearing and it would not object to a rehearing on the revenue allocation issue. No other party to this proceeding has filed motions or comments concerning KIUC's petition for rehearing.

The Commission acknowledges that all the parties, including KIUC, were limited during the consideration of the need for an interim revenue increase to only that issue. The inclusion of the statement in the December 5, 2007 Order noting KIUC did not voice opposition to the allocation methodology was an inadvertent oversight. However, the Commission notes the statement was an observation and not the justification for denying KIUC's proposed allocation approach.

² KIUC Petition for Rehearing at 5-6.

The Commission has always encouraged the parties in proceedings to endeavor to come to consensus resolution of the issues. KIUC states in its petition that since the “major” parties to this proceeding agreed on the revenue allocation issue, that agreement should be given consideration and that the requirement of a unanimous settlement applies only to revenue requirement determinations. As the Commission stated on page 34 of the December 5, 2007 Order, “However, as the parties to this case have been repeatedly reminded, the non-unanimous Joint Stipulation cannot be considered by the Commission as a resolution of the revenue requirement issues or rate design issues.”³ (emphasis added) In addition, to the extent that the joint brief filed by EKPC, the AG, and KIUC provides supporting arguments for the August 31, 2007 Joint Stipulation, those arguments cannot be considered by the Commission due to the fact it does not represent a unanimous resolution of the revenue allocation issue.

After reviewing the evidence and being sufficiently advised, the Commission finds that further examination of the revenue allocation issue is warranted and we will grant KIUC’s petition for rehearing. The Commission will establish a procedural schedule in the near future to further examine the revenue allocation issue.


IT IS THEREFORE ORDERED that KIUC’s petition for rehearing on the issue of revenue allocation is granted.

³ See Kentucky-American Water Company v. Commonwealth ex rel. Cowan, 847 S.W. 2d 737 (Ky. 1993).

Done at Frankfort, Kentucky, this 27th day of December, 2007.

By the Commission

ATTEST:



Executive Director

Case No. 2006-00472