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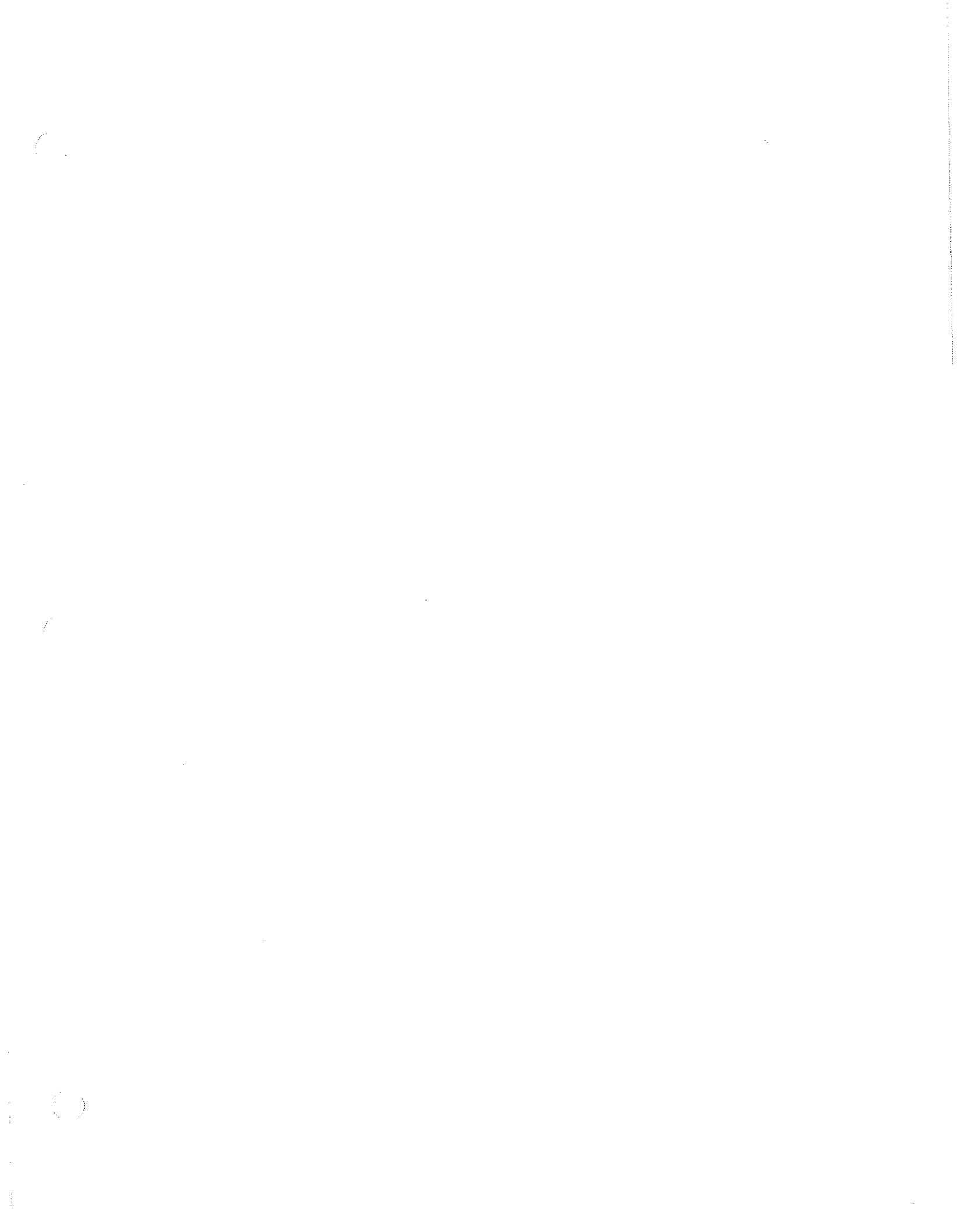
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- Q. Exhibit B, Schedule A lists the off-peak hours to which the ETS tariff applies. This results in 4804 of the 8760 hours in the test year that are off-peak, and the remaining 3956 hours are on-peak.
- a. Please provide the number of the 3956 on-peak hours during the test year in which EKPC, South Kentucky's wholesale supplier, ran at least one combustion turbine generator.
 - b. Please provide the number of the 4804 on-peak hours during the test year in which EKPC, South Kentucky's wholesale power supplier, ran at least one combustion turbine generator.
- R. South Kentucky RECC does not have this data.



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RESPONSE TO AG'S INITIAL REQUEST FOR INFORMATION

NEGATIVE ETS SALES

- Q. Please refer to Exhibit R, Schedule 1, page 1 of 6. Please explain how the Schedule A ETS can have negative sales in July.
- R. The negative sales situation for ETS units in July is most probably the result of an adjustment being made to an ETS customer's account.

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ETS NON-COINCIDENT PEAK DEMANDS

- Q. Please refer to Exhibit R, Schedule 6, page 5 of 6. This table shows that the ETS rate class has no non-coincident peak in every month, which is a physical impossibility since the Schedule A ETS class has energy sales in each month (except possibly July). Please provide the non-coincident peaks for the ETS class for each month of the test year, for Schedules A and B.
- R. The ETS customers in Schedule A are not considered to be a separate rate class but are considered to be an integral part of Schedule A. These ETS customers have been modeled as a separate rate class in the Cost of Service Study because of the unique aspects of the ETS program.

Listed below are the non-coincident peaks for ETS as requested in this query.

<u>Month</u>	<u>Non-coincident peak demand</u>	
	<u>Sched A</u>	<u>Sched B</u>
Sep-04	2,233	-
Oct-04	6,699	-
Nov-04	8,925	14
Dec-04	9,989	14
Jan-05	10,255	14
Feb-05	10,325	14
Mar-05	10,274	14
Apr-05	8,820	70
May-05	5,544	-
Jun-05	1,463	-
Jul-05	721	-
Aug-05	714	-

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NON-RECURRING CHARGES

- Q. It appears that South Kentucky is not requesting to change any of its non-recurring charges. Please confirm that no changes to non-recurring charges are being requested.

- R. South Kentucky is seeking no changes in this rate application in its non-recurring charges.

RESPONSE TO AG'S INITIAL REQUEST FOR INFORMATION

JUSTIFICATION FOR ETS RATE

- Q. Please provide a rationale for why a discount marketing rate (the ETS rate) to promote sales is justified in 2006, when EKPC is extremely capacity deficient and is having to add a significant amount of expensive baseload capacity to meet this deficiency.
- A. The ETS rate is rate developed in the late 1980s and approved by this Commission. Its purpose has not been to promote sales but to offer choices to the end consumer. The ETS program has the following purposes.
- a. Provide an incentive to a consumer to switch from an on-peak heating source to an off-peak heating source.
 - b. Promote off-peak usage to increase capacity utilization during the off-peak hours.
 - c. Provide a price signal that off-peak energy costs are less than on-peak energy costs.

ETS has the intent of shifting load to the winter off-peak period and does not seem to have any type of role in capacity planning as it does not add any load to the winter peak demand nor the summer peak demand. It may have the effect of decreasing the winter peak demand.

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DEVELOPMENT OF ETS ENERGY RATE

- Q. Please explain why the regular Schedule A rates are proposed to be raised by \$0.0035 per kWh, and South Kentucky is proposing to raise the ETS Marketing rate by only \$0.0021 per kWh. Please provide all calculations, assumptions and workpapers used to justify this difference.
- R. South Kentucky development this change in the ETS rate in the same pattern as previously approved by this Commission. The ETS energy rate has been set an amount equal to sixty (60) percent of the energy rate for the rate schedule applicable to the non ETS load. When the non ETS rate changes, then the ETS rate will change by an amount equal to sixty (60) percent.

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CONSUMER AND ACCOUNTING SERVICES COSTS

Q. Please refer to Exhibit R, Schedule 8, page 6 of 7 and 7 of 7, the "E. Customer & Accounting Services" calculations:

- a. Please provide the total Meter Reading Costs during the test year.
- b. Please provide the total Consumer Records costs during the test year.
- c. Please provide the total Customer Assistance costs during the test year.
- d. Please provide all calculations, assumptions and workpapers used to generate the "Factor" figures on these pages.
- e. Please provide all calculations, assumptions and workpapers used to generate the "Weight" figures on these pages.

R. a. Meter Reading Costs from Application, Exhibit Y, page 11 of 12 are listed below:

Meter Reading Expense	17,983
Meter Reading Expense - Contract	455,593
	<u>473,576</u>

b. Consumer Records expense comes from the same reference as in (a) above:

Customer Records and Collection Expense	<u>2,356,613</u>
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c. Customer Assistance Expenses comes from the same reference also.

Supervision	33,593
Customer Assistance Exp	201,157
Cust Asst Exp - contract tune-up	1,051
Cust Asst Exp - Button up reimb	(2,072)
Cust Asst Exp - Commercial and Indust.	42,854
Information & Instr Advt Exp	101,626
Misc. Cust Serv & Information	4,178
	<u>382,386</u>

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- d. The "Factor" is an effort to differentiate the costs among the rate classes for a specific activity. For meter reading, a rate class where only energy is metered would assigned a factor of one (1). A rate class where both energy and demand are metered would be assigned a factor of two (2)
For consumer records, the factor is based on the complexity of the billing and therefore, the records the Cooperative may need to maintain. Schedule A has three items to keep records on including a customer charge, an energy charge and a fuel adjustment charge. Other rate schedules may have a demand charge which would increase the factor by one. Schedule LP is an example of this fact. Those rate schedules based on special wholesale rates such as LP-1, LP-2, and LP-3 have additional amounts added to their factor because of minimal energy specifications and plus contract demand levels.
- e. The "Weight" is based on an approximation of the costs listed above. The costs for consumer records is approximately five times the cost of meter reading and consumer assistance.

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DEVELOPMENT OF MONTHLY CUSTOMER CHARGES

- Q. Please provide all calculations, assumptions and workpapers used to develop the proposed Month Customer Charges for each rate class.
- R. Provided pages 1 and 2 is a breakdown of the costs to serve each rate. The costs relevant to the customer charge are the consumer related costs.

<u>Rate Class</u>	<u>Demand Related Costs</u>	<u>Energy Related Costs</u>	<u>Consumer Related Costs</u>		
			<u>Lines</u>	<u>Transform.</u>	<u>Services</u>
A Residential, Farm & Non Farm	\$ 14,850,162	\$ 23,639,924	\$ 3,717,046	\$ 485,746	\$ 1,849,210
A ETS	-	331,459	-	-	-
B Small Commercial	3,335,677	1,991,197	240,709	47,772	119,752
B ETS	-	385	-	-	-
LP Large Power Rate	3,275,982	4,784,242	16,536	12,273	27,764
LP-1 Large Power Rate (500-4,999kW)	623,730	1,061,311	134	370	-
LP-2 Large Power Rate (5,000-9,999kW)	787,684	1,198,413	67	1,210	-
LP-3 Large Power Rate (500-2,999kW)	779,246	1,275,439	336	925	564
Special Contract	9,920	9,636	67	434	113
OPS Optional Power Service	715,893	560,530	10,083	7,484	16,929
AES All Electric Schools	175,284	280,080	672	1,380	1,129
OL Outdoor Lighting	286,526	613,046			
STL Street Lighting	10,736	23,333	1,344	943	-
DTSI Decorative Street Lighting	4,153	6,938	336	176	
Total	\$ 24,854,993	\$ 35,775,933	\$ 3,987,332	\$ 558,713	\$ 2,015,460

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DEVELOPMENT OF MONTHLY CUSTOMER CHARGES

<u>Consumer Related</u>			<u>Consumer</u>	<u>Number of</u>	<u>Cost to</u>
<u>Meters</u>	<u>Consumer & Account. Services</u>	<u>Total</u>	<u>Related Costs w/o Lines</u>	<u>Monthly Consumer Charges</u>	<u>Connect Consumer to Grid</u>
\$ 1,419,645	\$ 4,764,051	\$ 50,725,784	\$ 8,518,651	55298	\$ 12.84
-	59,686	391,145	59,686	0	
91,934	308,511	6,135,551	567,968	3581	\$ 13.22
-	69	454	69	0	
40,307	28,657	8,185,760	109,001	246	\$ 36.92
-	310	1,685,856	680	2	
-	155	1,987,528	1,365	1	
-	775	2,057,286	2,265	5	
164	116	20,450	827	1	
24,577	12,923	1,348,419	61,913	150	\$ 34.40
1,638	862	461,045	5,009	10	
1,399,583		2,299,155	1,399,583	0	
49,749	857	86,962	51,549	20	
13,095	214	24,913	13,485	5	
<u>\$ 3,040,692</u>	<u>\$ 5,177,186</u>	<u>\$ 75,410,309</u>	<u>\$ 10,792,051</u>	<u>\$ 59,319</u>	

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DEVELOPMENT OF MONTHLY CUSTOMER CHARGES

Page 2 of this response provides the total consumer related costs to connect a customer to the distribution grid. This consumer related costs include those for transformers, services, meters, and consumer and accounting services. It is the feeling of South Kentucky to attempt to move their monthly customer charge to one closer to the cost of providing service to any customer. These costs are incurred even when a customer uses no energy. It would be prudent for South Kentucky to match its rates with the costs to serve.

South Kentucky is proposing to change its customer charges for Schedule A, Schedule B, Schedule LP, and Schedule OPS. The consumer related costs incurred by South Kentucky to connect a customer to the distribution grid is as follows:

<u>Rate Class</u>	<u>Cost to Connect Consumer to Grid</u>	<u>Current Customer Charge</u>	<u>Proposed Customer Charge</u>
Schedule A - Residential, Farm & Home	\$ 12.84	\$ 5.60	\$ 8.00
Schedule B - Small Commercial	13.22	6.70	15.00
Schedule LP - Large Power Rate	36.92	11.20	30.00
Schedule OPS - Optional Power Service	34.40	11.20	30.00

The Schedule A proposed consumer charge is \$8.00 per month which is still less than the cost to serve. The proposed charge for Schedule B is \$15.00 which slightly above the cost to serve. The cost of service amount was rounded up to the \$15.00 amount.

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DEVELOPMENT OF MONTHLY CUSTOMER CHARGES

The proposed customer charge for Schedules LP and OPS have been increased from \$11.20 per month to \$30.00 per month and does represent an increase of 168%. This large an increase may not be consistent with the principle of gradualism. However, it is very consistent with the more important rate-making principle of cost to serve.

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RESPONSE TO AG'S INITIAL REQUEST FOR INFORMATION

PRINCIPLE OF GRADUALISM AND SCHEDULE OL

- Q. Please explain how the proposed 40% increase in Schedule OL rates is consistent with the principle of continuity and gradualism.
- R. A 40% increase in any rate schedule can never be construed as a gradual increase. More important than the principle of gradualism is the rate-making principle of the cost to serve in this situation. Schedule OL has been a subsidized rate and still will not be providing for the full cost to serve even if the complete 40% increase is granted for this rate class. Schedule OL is for outdoor lights and is one rate class that should not receive a subsidy. Outdoor lighting in most cases is nice to have but is not an absolute necessity.

No attempt is being made to denigrate the principle of gradualism and is a most worthy one in many instances. However, it is believed that the principle of gradualism is NOT applicable in this situation.

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Witness: Jim Adkins

RESPONSE TO AG'S INITIAL REQUEST FOR INFORMATION

AMOUNT OF INCREASE FOR SCHEDULE STL

- Q. Please explain how the proposed 50% increase in Schedule STL rates is consistently with the principle of continuity and gradualism.
- R. A 50% increase in any rate schedule can never be construed as a gradual increase. More important than the principle of gradualism is the rate-making principle of the cost to serve in this situation. Schedule STL has been a subsidized rate and still will not be providing for the full cost to serve even if the complete 50% increase is granted for this rate class. Schedule STL is for street lighting and is one rate class that should not receive a subsidy. *Outdoor lighting in most cases is nice to have but is not an absolute necessity.*

No attempt is being made to denigrate the principle of gradualism and it is a most worthy one in many instances. However, it is believed that the principle of gradualism is not applicable in this situation.

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RESPONSE TO AG'S INITIAL REQUEST FOR INFORMATION

ETS RATES SET AT 60% OF THE REGULAR ENERGY RATE

- Q. In Exhibit B, the proposed tariffs, the tariffs state that the ETS rate is set at 60% of the regular Schedule A and Schedule B rates. Please provide all calculations, assumptions, and workpapers used to generate this 60% rate level.
- R. The ETS program that was established in the late 1980s has always included an energy rate equal to sixty (60) percent of the energy rate for the rate schedule. The ETS program is a rider to. Since the advent of this program, significant changes have not been sought. The program has continued on as initially constructed and South Kentucky has developed the ETS rate in the same way.

South Kentucky does feel that this rate should be maintained at a level that will encourage participation in it by the South Kentucky consumers. The ETS program has found to be a beneficial one and EKPC has been able to shave _____ MW from its peak demand based on its last Integrated Resource Plan as filed with this Commission.