COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

TIME OF DAY TARIFF FILING)
BY KENTUCKY POWER COMPANY) CASE NO. 8871

ORDER

On July 28, 1983, Kentucky Power Company ("Kentucky Power") filed time-of-day tariffs as required by the Commission's Order of February 28, 1982, in Administrative Case No. 203, The Determinations with Respect to the Ratemaking Standards Identified In Section III(d)(1)-(6) of the Public Utility Regulatory Policies Act of 1978. Since Kentucky Power had a rate case pending before the Commission at the time of the filing, two sets of tariffs were filed. The Phase 1 Commercial and Industrial Power-Time-of-Day ("CIP-TOD") tariff was designed to achieve the same aggregate revenue level as the tariffs which were then effective. The Phase 2 tariff CIP-TOD was designed to achieve the same aggregate revenue level as the proposed Quantity Power ("QP") tariff in Case No. 8734, General Adjustments in Electric Rates of Kentucky Power Company. Kentucky Power also filed the testimony of Mr. Dennis Bethel, senior rate analyst with American Electric Power Service Corporation ("AEP"), and Mr. Mark Berndt, rate analyst with AEP; workpapers supporting the tariffs; and copies of customer notification letters.

Kentucky Power proposed that the tariff be implemented on a target group of 12 large industrial customers with demands of not less than 7500 KW. The tariff is to be implemented for 1 year. The 12 customers generate approximately $45,600,000 in revenues to Kentucky Power.

On August 10, 1983, the Commission suspended the tariff and scheduled a hearing to allow full consideration of the tariff. A motion to intervene was filed by Kentucky Industrial Utility Customers ("KIUC"), an organization representing Air Products and Chemicals, Inc., Armco Inc., Ashland Oil, Inc., Huntington Alloys, Inc., and Kentucky Electric Steel Company. The motion to intervene was granted. A hearing was conducted on September 14, 1983, beginning at 10:00 a.m. at the Commission's offices in Frankfort, Kentucky. Briefs were filed by KIUC on September 26, 1983, and by Kentucky Power on September 28, 1983.

On October 4, 1983, Kentucky Power submitted a revised CIP-TOD tariff to reflect the rates awarded in Case No. 8734 by Order dated September 20, 1983.

HIGH LOAD FACTOR CUSTOMERS

Several areas of concern were raised by KIUC during the course of this proceeding; however, the most significant concern was the impact of the CIP-TOD tariff on high load factor customers. The high load factor customers were generally allocated additional revenue as a consequence of the proposed tariff. KIUC witness, Mr. Eugene L. Mitchell of Ashland Oil, Inc., testified that Ashland's refineries could not shift operations from the peak to the off-peak periods and that the imposition of time-of-day ("TOD") rates would cost Ashland

Oil approximately $200,000.[1] Witness Mitchell recommended that the TOD rate be optional. Two other KIUC witnesses, Mr. Garry O. Caudell of Armco, Inc., and Mr. Randy S. Michael of Air Products and Chemicals, Inc., testified similarly that there was not much potential for their respective companies to shift operations to the off-peak period.

In the final Order in Administrative Case No. 203, the Commission has stated that although TOD rates may encourage a customer to shift electrical consumption from peak to off-peak, "such induced shifting is a secondary consideration. The primary consideration which argues for TOD rates is the requirement that a customer bear the full cost, to the utility, of his consumption pattern."[2] The Commission still supports this proposition. In this instance, the high load factor customers' bills increase. The time differentiated cost of service study performed by Mr. Berndt of AEP indicates that the Industrial Power ("IP") class, which consists of three high load factor customers, contributed a rate of return of 8.39 per cent as compared to 9.28 per cent for the overall company.[3] Thus, the increased bills of the high load factor customers, which result from the imposition of the TOD rates, are a reflection of the fact that this group has not been paying its share of the costs previously. The fact that the customers may not be able to shift their electrical

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[1] Comments of Air Products and Chemicals, Inc., Armco, Inc., Ashland Oil, Inc., Huntington Alloys, Inc. and Kentucky Electric Steel Company, Attachment A.

[2] Order in Administrative Case No. 203, February 28, 1982, page 30.

[3] Berndt prefiled testimony, Exhibit MSB-1, pages 1 and 2.

demand to the off-peak period does not relieve these customers of paying for the costs they cause. The TOD rates for these customers should be mandatory in order to recover the costs they impose on the utility.

In addition, it should be noted that at least two of the high load factor customers which are included in the TOD group actually received decreases in their bills as a result of the rates recently ordered in Case No. 8734. The 1982 bill amounts calculated using the tariffs in effect prior to Case No. 8734 for customer accounts [redacted] and [redacted] were $15,577,078 and $3,209,824, respectively.[4] The 1982 bill amounts calculated using the rates approved in Case No. 8734 for the same customers decrease to $15,418,648 and $3,165,482, respectively.[5] Further, the 1982 bill amounts calculated using the proposed CIP-TOD tariff for these two customers are $15,505,332 and $3,182,893, respectively.[6] Even after the TOD rates are imposed, these customers' bills are lower than they paid prior to the decision in Case No. 8734.

The Commission has some concern about the particular rate design incorporated in Kentucky Power's CIP-TOD tariff. The Commission's experience with the rate designs proposed by the other electric utilities which have filed TOD rates is that the low load factor customers are more likely to be adversely affected. However, that is not the case with Kentucky Power. Part of the explanation for

[4] Bethel prefiled testimony, Exhibit DWB-3.

[5] Kentucky Power Company filing of October 4, 1983.

[6] Ibid.

this is the lower class rate of return provided by the IP class mentioned previously. If one compares the proposed CIP-TOD tariff to the tariffs filed by the other companies, it would appear that part of the explanation is related to the higher off-peak demand charges proposed by Kentucky Power. However, in light of the fact that the high load factor customers are not adversely affected when one considers the impact of the rates resulting from Case No. 8734, and that the proposed CIP-TOD tariff is experimental, the Commission finds the tariff to be acceptable. The Commission's objective of promoting equity and cost-based rates can be examined by implementing this tariff on an experimental basis.

CONTRACT FOR PEAK AND OFF-PEAK DEMAND

The comments filed by KIUC in this proceeding suggest that the proposed CIP-TOD tariff should provide for customers to contract with Kentucky Power for both peak and off-peak demands. This is suggested because of the minimum demand charge provision of the tariff, which states that the minimum demand shall be the greater of 60 per cent of the contract capacity or 60 per cent of the highest billing demand, peak or off-peak, recorded during the previous 11 months. There is some concern that this provision takes away from a customer's incentive to shift to the off-peak period. Although this may be possible, it does not seem very probable. Since the CIP-TOD tariff will be reviewed carefully after 1 year, the Commission finds no reason at this time to revise the minimum demand charge provision of the tariff.

DETERMINATION OF PEAK PERIOD

In Attachment B of the comments of KIUC filed in this proceeding, Huntington Alloys, Inc., suggests that the peak and off-peak periods should be selected by the customer to coincide with their work shift schedules. The Commission finds no merit to this suggestion, since the objective is to establish rates that reflect the electric utility company's costs to provide service.

FINDINGS

The Commission finds the CIP-TOD tariff proposed by Kentucky Power to be reasonable and equitable. The tariff better reflects the costs to provide service than non-time-differentiated tariffs. Further, the terms and conditions of the tariff are appropriate for the 1-year experimental phase of the TOD rates as previously ordered in Administrative Case No. 203.

ORDER

IT IS HEREBY ORDERED that the proposed CIP-TOD tariff as revised October 4, 1983, shall become effective November 1, 1983.

IT IS FURTHER ORDERED that Kentucky Power shall file with the Commission within 20 days of the date of this Order its revised tariff sheets approved herein.

Done at Frankfort, Kentucky, this 28th day of October, 1983.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Secretary