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

O R D E R

The federal Public Utility Regulatory Policies Act of 1978 ("PURPA") required state commissions to consider certain regulatory and ratemaking standards. One of the ratemaking standards to be considered was the implementation of time-of-day ("TOD") rates. More explicitly, the TOD ratemaking standard to be considered was stated in Section 111 (d)(3) of PURPA as follows:

> The rates charged by any electric utility for providing electric service to each class of electric consumers shall be on a time-of-day basis which reflects the costs of providing electric service to such class of electric consumers at different times of the day unless such rates are not cost-effective with respect to such class.

This Commission established Administrative Case No. 203, The Determinations with Respect to the Ratemaking Standards Identified in Section 111 (d)(1)-(6) of the Public Utility Regulatory Policies Act of 1978, to perform its required consideration of the TOD ratemaking standard. After extensive hearings, the Commission issued its determinations with regard to the ratemaking standards in its Order of February 28, 1982. The Commission's determination on the TOD ratemaking standard is found on page 30 of the Order and it states:

> The Commission finds it appropriate to implement the time-of-day rate standard. The record in this proceeding clearly shows that the companies experience daily and hourly variations in their costs, and while there was discussion in this proceeding about the likelihood that time-of-day rates would induce customers to shift some of their consumption from peak to off-peak, the Commission believes that such induced shifting is a secondary consideration. The primary consideration which argues for time-of-day rates is the requirement that a consumer bear the full cost, to the utility, of his consumption pattern.

Thus, the Commission found it appropriate to implement TOD rates primarily because they promoted the equity ratemaking objective. That is, since a utility company's costs to operate vary with the time of day, it is reasonable to use a TOD rate structure which recovers the utility's costs from the customers who caused those costs to be incurred.

The Commission was concerned about moving too rapidly to TOD rates and, to mitigate this concern, a four-phase plan of implementation was provided in the Order of February 28, 1982, in Administrative Case No. 203. Further, the Order created a Load Management Task Force to oversee the implementation of TOD rates. The Task Force, which has since been divided into a Load Management Steering Committee and a Load Management Technical Committee, is comprised of Commission staff, utility representatives and consumer representatives. These committees have met regularly during the course of the past 3 years to discuss any problems in the implementation plan, as well as other load management topics.

Phase 1 of the implementation plan required each of the four investor-owned electric utility companies in Kentucky to select a small group of large customers who would be placed on TOD rates. Kentucky Power Company ("Kentucky Power") selected as participants, and the Commission concurred, all customers with maximum demands normally 7500 kw or larger. Included in this group of customers were 12 mining and manufacturing customers.

Phase 2 of the implementation plan called for 12 months of load research on the participating customers while those customers were continued to be billed under the existing rate structure which was not time differentiated. The purpose was to prepare a base of information to use for comparing the usage under TOD rates. At the same time that this base of information was being gathered, Kentucky Power expended considerable effort to explain the TOD rate structure to its customers. For Kentucky Power, the baseline period consisted of the 12 months ended October 1983.

Phase 3 of the implementation plan was the 12-month period during which the TOD rates were actually in place. However, in order to get the TOD rates approved, it was necessary to establish this docket to review the calculation of the rates and the likely impact of the rate structure on the customers. 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, intervened. A hearing was conducted on September 14, 1983. In an Order issued in this case on October 28, 1983, the Commission approved the proposed TOD tariffs to become effective in November 1983.

Phase 4 of the implementation plan required each of the participating utilities to prepare a report comparing the 2 years of information gathered from the customers. In an Order issued in this docket on September 25, 1984, the Commission found it appropriate to keep the TOD tariffs in effect until the reports were completed and a final decision was reached concerning the fate of TOD rates. Kentucky Power filed its report with the Commission on May 29, 1985. In the report, Kentucky Power's basic conclusion is found on page 3 where it states:

> In spite of the fact that no definitive conclusions can be drawn from this experiment as to the cost/benefits of TOD rates to KPCo and its customers in general, KPC recommends that the Commission make a mandatory TOD rate permanent for this class of twelve customers on the basis that a TOD rate is cost-justified and equitable. KPCo's cost of service varies on a TOD basis and it is therefore equitable to similarly bill industrial customers under rates that also vary on a TOD basis. TOD rates will also provide these customers with additional rate flexibility that will enable them to more efficiently utilize their own production facilities and thereby be more competitive in the marketplace.

The Commission has before it the study by Kentucky Power and the other three participating utilities. The Commission needs to make a decision concerning the TOD rates. It would appear at this juncture that there are basically three options to consider. The first option would be to make the TOD rate structure permanent and mandatory for those presently billed under the TOD rate structure. The second option is to terminate the TOD tariffs and revert back to the previous non-time-differentiated tariffs. The third option is to have the utilities allow each customer to have the option to choose whether they would prefer to be billed under a TOD rate structure or the previous non-time-differentiated rate structure.

The Commission after careful consideration agrees with the conclusion reached by Kentucky Power. It is understood that because of the experimental nature of the TOD rates there was not a significant shift of the customer's load to the off-peak period. It is also understood that it is difficult for some customers to change their operations to benefit from a TOD rate. However, as stated in the Commission's February 28, 1982, Order in Administrative Case No. 203, the shifting of load was of secondary consideration. The Commission is still inclined toward its earlier decision that a TOD rate structure is appropriate since it better reflects to the customer the cost that it is imposing on the utility. Further, the Commission notes that the TOD tariffs were reasonably well accepted by the customers when the TOD rates were imposed, although there were some particular problems noted by certain customers. One of the reasons for this acceptance was the extra effort put forth by the utilities to get to know its customers and explain the TOD rates to them. Although there were some costs involved in this effort, the Commission believes there was some benefit to having the utility get to know their customers better. Also, the Commission believes that the TOD rate has the additional benefit that it provides customers additional options to control their costs in the event the economy or the market for the products or services they provide should require such cost controls. Therefore, the Commission, in light of the above, finds that it is reasonable to keep Kentucky Power's TOD tariff, Commercial and Industrial Power Time-of-Day ("CIP-TOD"), in effect for all those customers presently served under that tariff.

However, before this decision is final the Commission believes that all of the participants and other interested parties should have the opportunity to express their comments to the Commission. Therefore, the Commission finds that the final report on the TOD experiment should be distributed by Kentucky Power to all the participants. All of the participants, including the utilities and other interested parties, shall have the opportunity to provide written comments to the Commission by August 16, 1985. Comments should be sent to Mr. Forest Skaggs, Secretary, Public Service Commission, P. O. Box 615, Frankfort, Kentucky 40602; and a copy should also be sent to Kentucky Power in care of Mr. Robert B. Bibb, Manager, Rates and Tariffs, 1701 Central Avenue, Ashland, Kentucky 41101.

IT IS THEREFORE ORDERED that Kentucky Power shall provide a copy of this Order and the TOD report to each of the customers currently billed under CIP-TOD. Comments on the TOD report and the Commission's proposed position on the continuance of TOD rates are due August 16, 1985.

IT IS FURTHER ORDERED that Kentucky Power shall file five additional copies of the TOD report with the Commission in this docket.

Done at Frankfort, Kentucky, this 29th day of July, 1985.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

did not participate
Commissioner

ATTEST:

Secretary