COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF FOX CREEK RURAL ELECTRIC COOPERATIVE CORPORATION, INC. FOR AN ADJUSTMENT TO ITS RETAIL ELECTRIC POWER TARIFFS	)	CASE NO. 94-382

O R D E R

On December 2, 1994, Fox Creek Rural Electric Cooperative Corporation, Inc. ("Fox Creek") filed an application to reduce its rates for retail electric service by $546,886 annually effective January 1, 1995. The proposed rate reduction was designed to pass on to Fox Creek's customers a decrease in power costs proposed by Fox Creek's wholesale power supplier, East Kentucky Power Cooperative, Inc. ("East Kentucky").[1] The decrease in power costs proposed by East Kentucky became effective January 1, 1995, subject to further modification, and Fox Creek's proposed rates became effective simultaneously under the same condition.

Intervening in this matter was the Attorney General of the Commonwealth of Kentucky, by and through his Public Service Litigation Branch ("AG"). A public hearing was held April 27, 1995 at the Commission's offices in Frankfort, Kentucky.

On July 25, 1995, the Commission approved a rate decrease for East Kentucky which was greater than it had proposed.

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[1] Case No. 94-336, The Application of East Kentucky Power Cooperative, Inc. for an Adjustment to Its Wholesale Power Tariffs.

Consequently, Fox Creek's power costs will decrease by an additional $119,020 annually for a total decrease of $665,906 annually. The manner in which this total decrease is passed on to Fox Creek's customers through reduced rates is discussed below.

ALLOCATION AND RATE DESIGN ISSUES

Fox Creek proposed to reduce its rates to reflect the full amount of East Kentucky's wholesale rate reduction. Fox Creek utilized an "equal reduction per Kwh" methodology which provides retail customers the same reduction per Kwh for all energy charges. This approach results in a straight pass-through of the East Kentucky decrease with no change to Fox Creek's existing rate design and no impact on its financial condition. Fox Creek was one of fourteen customers of East Kentucky utilizing this methodology while three others utilized the "equal percentage of revenue" methodology.

The AG recommends that the decrease be allocated on an equal percentage of revenue approach. The AG contends that this is the most equitable approach and its use here, in the absence of a cost-of-service study, is analogous to its use by the Commission in general rate cases when no cost-of-service studies are acceptable for revenue allocation purposes.

The AG also recommends that Fox Creek's declining block rates now be converted to flat rates. The AG argues that implementing a rate decrease is the ideal time to make such a change because any resulting harm will be less than if implemented with a rate increase. The AG argues that the Commission has made such changes without the benefit of cost-of-service studies in previous cases and that now is the time to eliminate declining block rate structures which encourage inefficient and wasteful use of electricity.

The AG questioned the continuation of the Electric Thermal Storage ("ETS") program and urged, if the program is continued, that retail ETS rates not be set below East Kentucky's wholesale off-peak energy rates. Noting that some Fox Creek rate schedules contained demand charges that were less than East Kentucky's proposed wholesale demand charges, the AG recommended that all retail demand charges be at or above the wholesale demand charges.

In rebuttal, Fox Creek contended that both revenue allocation methodologies are reasonable and that one should not be favored over the other. It maintained that the AG's proposed rate design changes should not be done within a pass-through proceeding, nor should they be done without the benefit of a cost-of-service study. Fox Creek was concerned that such changes would result in some customers receiving rate increases even though Fox Creek had filed for a rate decrease. It also expressed concern about the potential impact on its revenues if customers reduce consumption due to changes in rate design.

Fox Creek supported East Kentucky's ETS program and urged that the existing ETS rate structure be maintained. Fox Creek indicated that, through the combination of its retail demand and energy charges, it was adequately recovering wholesale demand charges. It also noted differences in measuring demand at the wholesale and retail levels, i.e. coincident versus non-coincident peak, and that many of East Kentucky's cooperatives have historically priced retail demand charges below the corresponding wholesale demand charge.

Based on the evidence of record and being otherwise sufficiently advised, the Commission will approve the "equal reduction per Kwh" approach for allocating the decrease to retail rate classes for the following reasons. (1) The wholesale rate decrease from East Kentucky consists of decreased energy charges (per Kwh); therefore, an equal reduction per Kwh is a reasonable approach for the retail pass-through of the wholesale power cost decrease. (2) When a change in retail rates is caused by a change in only one expense item, purchased power, it is neither necessary nor appropriate to use a "percentage of revenue" allocation methodology. The Commission has at times utilized such a methodology where revenues are adjusted to reflect changes in multiple expenses. Here, however, revenues are being changed to reflect only one expense, purchased power. Under these circumstances, it is logical and reasonable that a change in cost be identified and reflected in the resulting change in retail rates.[2]

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[2] Fox Creek proposed an equal percentage approach for its lighting sales. The Commission has applied the equal reduction per KWH approach to all sales, including lighting sales.

The Commission finds merit in the AG's recommendation to implement changes in rate design. While a cost-of-service study may be essential properly to redesign certain categories of rates, it is not a prerequisite to eliminating declining block electric rates. Declining block rates send an inappropriate price signal to consumers, one that tends to promote the use of electricity in a manner that does not always result in an efficient use of resources. While there may be some justification for seasonal, off-peak use of declining block rates, the Commission generally favors flattening rates for energy consumption.

Declining block rates should be converted to flat rates to the greatest extent possible without undue disruption to Fox Creek or its customers. However, recognizing the concerns that such changes might result in rate increases for some customers and lower revenues to the utility due to reduced consumption, rates will be flattened to the extent possible without increasing any rate above the level in effect prior to this case. This will ensure that no customers experience a rate increase as a result of this case. Due to Fox Creek's existing rate design and the magnitude of its wholesale power cost decrease, this approach will result in all declining block rate schedules being converted to flat rates.[3]

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[3] This does not apply to those industrial class rate schedules where the energy blocks are measured per KW of demand.

The ETS rate issue is essentially moot due to the Commission's decision in East Kentucky's rate case to set the wholesale off-peak energy rates well below the retail ETS rate. The Commission, therefore, will approve the continuation of the existing ETS rate structure.

On the issue of pricing retail and wholesale demand charges, the Commission recognizes that retail demand should not be priced below its wholesale cost. However, due to differences in measuring retail and wholesale demand, i.e. non-coincident versus coincident peak demands, below cost pricing cannot be presumed. There is no evidence to demonstrate that Fox Creek is not fully recovering its demand cost in retail demand rates. In addition, several of East Kentucky's distribution cooperatives indicated that they would be performing cost-of-service studies in the relatively near future. Fox Creek's next cost-of-service study should address the issue of retail recovery of wholesale demand cost.

IT IS THEREFORE ORDERED that:

1. The rates in Appendix A, attached hereto and incorporated herein, are approved for service rendered on and after the date of this Order.

2. Within 20 days of the date of this Order, Fox Creek shall file with the Commission revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 26th day of July, 1995.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Don Mills

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 94-382 DATED July 26, 1995.

The following rates and charges are prescribed for the customers in the area served by Fox Creek Rural 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 R
RESIDENTIAL SERVICE

Rate:

Minimum Bill	First	30 KWH Per Month	$5.40	Per Month
All Over		30 KWH Per Month	0.05910	Per KWH

SCHEDULE C
COMMERCIAL AND SMALL POWER

Rate:

Minimum Bill	First	30 KWH Per Month	$5.40	Per Month
All Over		30 KWH Per Month	0.06149	Per KWH

SCHEDULE L
LARGE POWER SERVICE (50 TO 200 KW)

Rate:

First	50 KWH Per KW of Billing Demand	$0.06450	Per KWH
Next	100 KWH Per KW of Billing Demand	0.06050	Per KWH
Over	150 KWH Per KW of Billing Demand	0.05060	Per KWH

SCHEDULE A
RURAL LIGHTING AND COMMUNITY STREET LIGHTING

Service for the above unit shall be unmetered and billed on the member's monthly bill for other electrical service furnished by the Cooperative at the rate of $5.08 each and every month.

SCHEDULE R2
RESIDENTIAL MARKETING RATE

Rate:

All KWH	$0.03546 Per KWH

SCHEDULE C1
LARGE INDUSTRIAL (1,000 TO 4,999 KW)

Rate:

Energy Charge	$0.02773 Per KWH

SCHEDULE C2
LARGE INDUSTRIAL (5,000 TO 9,999 KW)

Rate:

Energy Charge	$0.02273 Per KWH

SCHEDULE C3
LARGE INDUSTRIAL (OVER 10,000 KW)

Rate:

Energy Charge	$0.02173 Per KWH

SCHEDULE M
COMMERCIAL AND INDUSTRIAL POWER SERVICES
(201 - 500 KW)

Rate:

Energy Charge	
First 425 KWH per KW of Billing Demand	$0.03926 Per KWH
All Over 425 KWH per KW of Billing Demand	0.03137 Per KWH

SCHEDULE N
INDUSTRIAL AND LARGE COMMERCIAL POWER SERVICES
(OVER 500 KW)

Rate:

Energy Charge	
First 425 KWH per KW of Billing Demand	$0.03526 Per KWH
All Over 425 KWH per KW of Billing Demand	0.02737 Per KWH

SCHEDULE B1
LARGE INDUSTRIAL RATE

Rate:

Energy Charge	$0.02773 Per KWH