

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF JACKSON COUNTY RURAL)
ELECTRIC COOPERATIVE CORPORATION, INC.)
FOR AN ADJUSTMENT TO ITS RETAIL ELECTRIC) CASE NO. 94-389
POWER TARIFFS)

O R D E R

On December 2, 1994, Jackson County Rural Electric Cooperative Corporation, Inc. ("Jackson County") filed an application to reduce its rates for retail electric service by \$2,667,061 annually effective January 1, 1995. The proposed rate reduction was designed to pass on to Jackson County's customers a decrease in power costs proposed by Jackson County'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 Jackson County'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.

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

On July 25, 1995, the Commission approved a rate decrease for East Kentucky which was greater than it had proposed. Consequently, Jackson County's power costs will decrease by an additional \$547,683 annually for a total decrease of \$3,214,744 annually. The manner in which this total decrease is passed on to Jackson County's customers through reduced rates is discussed below.

ALLOCATION AND RATE DESIGN ISSUES

Jackson County proposed to reduce its rates to reflect the full amount of East Kentucky's wholesale rate reduction. Jackson County 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 Jackson County's existing rate design and no impact on its financial condition. Jackson County 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 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.

In rebuttal, Jackson County contended that both revenue allocation methodologies are reasonable and that one should not be favored over the other. Jackson County supported East Kentucky's ETS program and urged that the existing ETS rate structure be maintained.

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.

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.

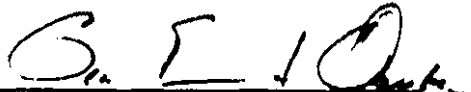
IT IS THEREFORE ORDERED that:

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, Jackson County 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:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 94-389 DATED July 26, 1995.

The following rates and charges are prescribed for the customers in the area served by Jackson County 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 10
RESIDENTIAL, FARM AND NON-FARM SERVICE

Rate:

All KWH \$.05603 Per KWH

SCHEDULE 11
OFF-PEAK MARKETING RATE

Rate:

All KWH \$.03362 Per KWH

SCHEDULE 20
COMMERCIAL, SMALL POWER AND
THREE-PHASE FARM SERVICE

Rate:

All KWH \$.05708 Per KWH

SCHEDULE 30
LARGE POWER SERVICE LESS THAN 50 KW

Rate:

All KWH \$.04931 Per KWH

SCHEDULE 33
WATER PUMPING SERVICE

Rate:

All KWH \$.04917 Per KWH

SCHEDULE 40
LARGE POWER MORE THAN 50 KW
BUT LESS THAN 275 KW

Rate:

All KWH \$.04572 Per KWH

SCHEDULE 43
LARGE POWER RATE - OVER 275 KW
THREE-PHASE FARM SERVICE

Rate:

All KWH \$.04224 Per KWH

SCHEDULE 46
LARGE POWER RATE - 1,000 KW AND OVER

Rate:

All KWH \$.02788 Per KWH

SCHEDULE 47
LARGE POWER RATE - 1,000 KW TO 4,999 KW

Rate:

All KWH \$.02741 Per KWH

SCHEDULE 48
LARGE POWER RATE - 5,000 KW TO 9,999 KW

Rate:

All KWH \$.02138 Per KWH

SCHEDULE 49
LARGE POWER RATE - 10,000 KW AND OVER

Rate:

All KWH \$.02038 Per KWH

SCHEDULE 50 AND 60
SCHOOLS, CHURCHES AND COMMUNITY HALLS

Rate:

All KWH \$.05278 Per KWH

SCHEDULE 52
ALL ELECTRIC SCHOOLS

Rate:

All KWH \$.04862 Per KWH

SCHEDULE SL
STREET LIGHTS

Rate:

22,000 Lumens \$11.42 Per Month
5,800 Lumens 7.89 Per Month

SCHEDULE SL
OUTDOOR LIGHTING SERVICE - SECURITY LIGHTS

Rate:

Mercury Vapor Lamp
7,000 - 9,500 Lumens \$ 6.08 Per Month

SCHEDULE SL
OUTDOOR LIGHTING SERVICE - HIGH PRESSURE SODIUM

Rate:

4,000 Lumens Decorative Colonial \$ 8.58 Per Month
27,500 Lumens Directional Floodlight 8.64 Per Month
50,000 Lumens Directional Floodlight 11.16 Per Month
27,500 Lumens Cobra Head 8.13 Per Month