

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF FLEMING-MASON RURAL)
ELECTRIC COOPERATIVE CORPORATION, INC.)
FOR AN ADJUSTMENT TO ITS RETAIL ELECTRIC) CASE NO. 94-396
POWER TARIFFS)

O R D E R

On December 2, 1994, Fleming-Mason Rural Electric Cooperative Corporation, Inc. ("Fleming-Mason") filed an application to reduce its rates for retail electric service by \$2,478,847 annually effective January 1, 1995. The proposed rate reduction was designed to pass on to Fleming-Mason's customers a decrease in power costs proposed by Fleming-Mason'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 Fleming-Mason'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 26, 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.

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

Consequently, Fleming-Mason's power costs will decrease by an additional \$394,452 annually for a total decrease of \$2,873,299 annually. The manner in which this total decrease is passed on to Fleming-Mason's customers through reduced rates is discussed below.

ALLOCATION AND RATE DESIGN ISSUES

Fleming-Mason proposed to reduce its rates to reflect the full amount of East Kentucky's wholesale rate reduction. Fleming-Mason 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 Fleming-Mason's existing rate design and no impact on its financial condition. Fleming-Mason 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 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 Fleming-Mason 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, Fleming-Mason contended that both revenue allocation methodologies are reasonable and that one should not be favored over the other. Fleming-Mason also supported East Kentucky's ETS program and urged that the existing ETS rate structure be maintained. Fleming-Mason 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.

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. Finally, 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 Fleming-Mason 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. Fleming-Mason'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, Fleming-Mason 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. 94-396 DATED July 26, 1995.

The following rates and charges are prescribed for the customers in the area served by Fleming-Mason 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 RSP
RESIDENTIAL AND SMALL POWER

Rate:

Energy Charge (for all KWH)	\$.05204 Per KWH
Energy Charge (E.T.S.)	.03122 Per KWH

SCHEDULE SGS
SMALL GENERAL SERVICE

Rate:

Energy Charge (for all KWH)	\$.02775 Per KWH
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SCHEDULE LGS
LARGE GENERAL SERVICE

Rate:

Energy Charge (for all KWH)	\$.02786 Per KWH
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SCHEDULE OLS
OUTDOOR LIGHTING SERVICE

Monthly Rate:

Mercury Vapor

7,000 Lumens	Standard Service	\$ 5.64
	Ornamental Service	14.10
20,000 Lumens	Standard Service	10.65
	Ornamental Service	17.97

High-Pressure Sodium

9,500 Lumens	Standard Service	\$ 5.90
	Ornamental Service	13.22
	Directional Service	6.00
22,000 Lumens	Standard Service	8.03
	Ornamental Service	15.36
	Directional Service	7.86
50,000 Lumens	Standard Service	11.56
	Ornamental Service	18.48
	Directional Service	11.26

SCHEDULE AES
ALL ELECTRIC SCHOOL

Rate:

Energy Charge (for all KWH) \$.04811 Per KWH

TEXAS EASTERN TRANSMISSION CORPORATION
SPECIAL CONTRACTED SERVICE

Rate:

Energy Charge (for all KWH) \$.02638 Per KWH

INLAND ELECTRIC
SPECIAL CONTRACTED SERVICE

Rate:

Energy Charge (for all KWH) \$.02002 Per KWH
Customer Charge 4,605.00 Per Month

SCHEDULE LIS 1
LARGE INDUSTRIAL SERVICE

Rate:

Energy Charge (for all KWH) \$.02889 Per KWH

SCHEDULE LIS 2
LARGE INDUSTRIAL SERVICE

Rate:

Energy Charge (for all KWH) \$.02564 Per KWH

SCHEDULE LIS 3
LARGE INDUSTRIAL SERVICE

Rate:

Energy Charge (for all KWH) \$.02415 Per KWH

SCHEDULE LIS 4
LARGE INDUSTRIAL SERVICE

Rate:

Energy Charge (for all KWH) \$.03060 Per KWH

SCHEDULE LIS 5
LARGE INDUSTRIAL SERVICE

Rate:

Energy Charge (for all KWH) \$.02735 Per KWH

SCHEDULE LIS 6
LARGE INDUSTRIAL SERVICE

Rate:

Energy Charge (for all KWH) \$.02333 Per KWH

SCHEDULE LIS 4B

Rate:

Energy Charge (for all KWH) \$.03060 Per KWH

SCHEDULE LIS 5B

Rate:

Energy Charge (for all KWH) \$.02735 Per KWH

SCHEDULE LIS 6B

Rate:

Energy Charge (for all KWH) \$.02333 Per KWH