

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF TAYLOR COUNTY RURAL )  
ELECTRIC COOPERATIVE CORPORATION, INC. )  
FOR AN ADJUSTMENT TO ITS RETAIL ELECTRIC ) CASE NO. 94-399  
POWER TARIFFS )

O R D E R

On December 2, 1994, Taylor County Rural Electric Cooperative Corporation, Inc. ("Taylor County") filed an application to reduce its rates for retail electric service by \$1,281,858 annually effective January 1, 1995. The proposed rate reduction was designed to pass on to Taylor County's customers a decrease in power costs proposed by Taylor County's wholesale power supplier, East Kentucky Power Cooperative, Inc. ("East Kentucky").<sup>1</sup> The decrease in power costs proposed by East Kentucky became effective January 1, 1995, subject to further modification, and Taylor 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 26, 1995 at the Commission's offices in Frankfort, Kentucky.

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<sup>1</sup> 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, Taylor County's power costs will decrease by an additional \$289,570 annually for a total decrease of \$1,571,428 annually. The manner in which this total decrease is passed on to Taylor County's customers through reduced rates is discussed below.

#### ALLOCATION AND RATE DESIGN ISSUES

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

Noting that some Taylor County 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, Taylor County contended that both revenue allocation methodologies are reasonable and that one should not be favored over the other. Taylor County also 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.


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 Taylor County 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. Taylor County'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, Taylor 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. 94-399 DATED July 26, 1995.

The following rates and charges are prescribed for the customers in the area served by Taylor 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 A  
FARM AND HOME SERVICE

Rate:

All KWH Per Month \$ .05152 Per KWH

SCHEDULE GP-1  
GENERAL PURPOSE SERVICE (LESS THAN 25 KW)

Rate:

All KWH Per Month \$ .05378 Per KWH

SCHEDULE GP-2  
GENERAL PURPOSE SERVICE (GREATER THAN 25 KVA)

Rate:

All KWH Per Month \$ .03592 Per KWH

SCHEDULE STL  
STREET LIGHTS

Rate:

All KWH Per Month at GP-1 Rate \$ .05378 Per KWH