

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF BIG SANDY RURAL)
ELECTRIC COOPERATIVE CORPORATION, INC.)
FOR AN ADJUSTMENT TO ITS RETAIL ELECTRIC) CASE NO. 94-403
POWER TARIFFS)

O R D E R

On December 2, 1994, Big Sandy Rural Electric Cooperative Corporation, Inc. ("Big Sandy") filed an application to reduce its rates for retail electric service by \$1,009,405 annually effective January 1, 1995. The proposed rate reduction was designed to pass on to Big Sandy's customers a decrease in power costs proposed by Big Sandy'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 Big Sandy'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, Big Sandy's power costs will decrease by an additional \$198,985 annually for a total decrease of \$1,208,390 annually. The manner in which this total decrease is passed on to Big Sandy's customers through reduced rates is discussed below.

ALLOCATION AND RATE DESIGN ISSUES

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

The AG agrees with Big Sandy that the decrease should 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 Big Sandy 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.

Big Sandy contended that the results produced by both revenue allocation methodologies were not substantially different. Big Sandy supported East Kentucky's ETS program and urged that the existing ETS rate structure be maintained. Big Sandy 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 finds that the "equal reduction per Kwh" approach should be utilized 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 Big Sandy 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. Big Sandy'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.

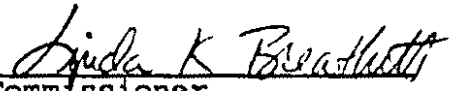
2. Within 20 days of the date of this Order, Big Sandy shall file with the Commission revised tariff sheets setting out the rates approved herein.

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. 94-403 DATED July 26, 1995.

The following rates and charges are prescribed for the customers in the area served by Big Sandy 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-1
FARM AND HOME

Rate:

| | |
|------------------------|-------------------|
| Energy Charge | \$.05018 Per KWH |
| Off-Peak Energy Charge | .03011 Per KWH |

SCHEDULE A-2
COMMERCIAL AND SMALL POWER

Rate:

| | |
|---------------|-------------------|
| Energy Charge | \$.03633 Per KWH |
|---------------|-------------------|

SCHEDULE LP
LARGE POWER SERVICE

Rate:

| | |
|---------------|-------------------|
| Energy Charge | \$.03519 Per KWH |
|---------------|-------------------|

SCHEDULE LPR
LARGE POWER RATE

Rate:

| | |
|---------------|-------------------|
| Energy Charge | \$.03283 Per KWH |
|---------------|-------------------|

SCHEDULE YL-1
YARD SECURITY LIGHT SERVICE

Rate:

Flat rate per light per month as follows:

| | |
|------------|-------------------|
| 175 Watt | \$ 4.53 Per Month |
| 400 Watt | 6.46 Per Month |
| 500 Watt | 7.72 Per Month |
| 1,500 Watt | 14.94 Per Month |

SCHEDULE IND 1

Energy Charge \$.02809 Per KWH

SCHEDULE IND 2

Energy Charge \$.02309 Per KWH