

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF FARMERS RURAL ELECTRIC)
COOPERATIVE CORPORATION FOR AN ADJUSTMENT) CASE NO. 94-406
TO ITS RETAIL ELECTRIC POWER TARIFFS)

O R D E R

On December 2, 1994, Farmers Rural Electric Cooperative Corporation ("Farmers") filed an application to reduce its rates for retail electric service by \$1,256,347 annually effective January 1, 1995. The proposed rate reduction was designed to pass on to Farmers' customers a decrease in power costs proposed by Farmers' 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 Farmers' 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. Consequently, Farmers' power costs will decrease by an additional

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

\$267,467 annually for a total decrease of \$1,523,814 annually. The manner in which this total decrease is passed on to Farmers' customers through reduced rates is discussed below.

ALLOCATION AND RATE DESIGN ISSUES

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

In rebuttal, Farmers 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. Farmers was concerned that such changes would result in some customers receiving rate increases even though Farmers 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. Farmers also 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 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 Farmers 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 Farmers' 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.

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.

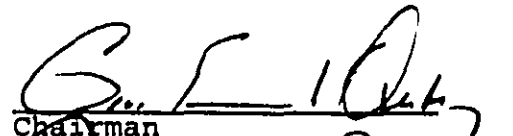
IT IS THEREFORE ORDERED that:

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, Farmers 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. 94-406 DATED July 26, 1995.

The following rates and charges are prescribed for the customers in the area served by Farmers 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:

First 50 KWH (Minimum Charge)	\$.13179 Per KWH
All Remaining KWH	.05085 Per KWH

SCHEDULE C-1
COMMERCIAL AND INDUSTRIAL SERVICE
(LESS THAN 50 KW)

Rate:

First 50 KWH (Minimum Charge)	\$.13179 Per KWH
All Remaining KWH	.05572 Per KWH

SCHEDULE C-2
COMMERCIAL AND INDUSTRIAL SERVICE
(50 KW OR ABOVE)

Rate:

All KWH	.04108 Per KWH
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SCHEDULE D
LARGE COMMERCIAL/INDUSTRIAL SERVICE
OPTIONAL TIME-OF-DAY RATE

Rate:

All KWH	.04108 Per KWH
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SCHEDULE RM
RESIDENTIAL OFF-PEAK MARKETING

Rate:

All KWH

\$.03051 Per KWH

SCHEDULE CM
SMALL COMMERCIAL OFF-PEAK MARKETING

Rate:

All KWH

\$.03343 Per KWH

SCHEDULE OL
OUTDOOR LIGHTING SERVICE

Rate Per Fixture:

<u>Type of Lamp</u>	<u>Watts</u>	<u>Monthly Charge Per Lamp</u>
Mercury Vapor	175	\$ 5.83
Mercury Vapor	250	6.38
Mercury Vapor	400	9.59
Mercury Vapor	1000	15.29
Sodium Vapor	100	6.53
Sodium Vapor	150	7.40
Sodium Vapor	250	9.73
Sodium Vapor	400	12.07
Sodium Vapor	1000	25.71

SCHEDULE SL
STREET LIGHTING

Rate:

Per KWH Per Month as Determined in
Table I for Each Lamp

\$.03109

SCHEDULE E
LARGE COMMERCIAL

Rate:

Energy Charge/KWH

\$.02757 Per KWH