

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF CUMBERLAND VALLEY)
RURAL ELECTRIC COOPERATIVE CORPORATION,)
INC. FOR AN ADJUSTMENT TO ITS RETAIL) CASE NO. 94-420
ELECTRIC POWER TARIFFS)

O R D E R

On December 2, 1994, Cumberland Valley Rural Electric Cooperative Corporation, Inc. ("Cumberland Valley") filed an application to reduce its rates for retail electric service by \$2,120,363 annually effective January 1, 1995. The proposed rate reduction was designed to pass on to Cumberland Valley's customers a decrease in power costs proposed by Cumberland Valley'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 Cumberland Valley'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 25, 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, Cumberland Valley's power costs will decrease by an additional \$344,555 annually for a total decrease of \$2,464,918 annually. The manner in which this total decrease is passed on to Cumberland Valley's customers through reduced rates is discussed below.

ALLOCATION AND RATE DESIGN ISSUES

Cumberland Valley proposed to reduce its rates to reflect the full amount of East Kentucky's wholesale rate reduction. Cumberland Valley 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 Cumberland Valley's existing rate design and no impact on its financial condition. Cumberland Valley 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 Cumberland Valley's 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 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, Cumberland Valley 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. Cumberland Valley was concerned that such changes would result in some customers receiving rate increases even though Cumberland Valley 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. Cumberland Valley 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 Cumberland Valley 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 Cumberland Valley's existing rate design and the magnitude of its wholesale power cost decrease, this approach will result in Rate Schedule 1, Residential, being converted to a flat rate while all others will be flattened with the declining block structure still intact but less pronounced.

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, Cumberland Valley shall file with the Commission revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 26th day of July, 1995.

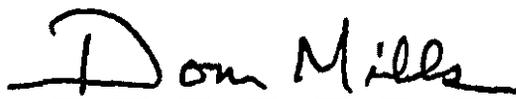
PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 94-420 DATED July 26, 1995.

The following rates and charges are prescribed for the customers in the area served by Cumberland Valley 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 I
FARM, HOME, SCHOOLS AND CHURCHES

Rates:

All KWH	\$.05084 Per KWH
Marketing Rate	.03050 Per KWH

SCHEDULE II
SMALL COMMERCIAL

Rates:

<u>Energy Charge</u>	<u>Single Phase</u>	<u>Three Phase</u>
First 3,000 KWH	\$.06572 Per KWH	\$.06572 Per KWH
Over 3,000 KWH	.05932 Per KWH	\$.05932 Per KWH

SCHEDULE III
ALL ELECTRIC SCHOOL (A.E.S.)

Rates:

All KWH	\$.05135 Per KWH
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SCHEDULE IV
LARGE POWER RATE - INDUSTRIAL

Rates:

Energy Charge
All KWH \$.02647 Per KWH

SCHEDULE IV-A
LARGE POWER RATE - 50 KW TO 2,500 KW

Rates:

Energy Charge
All KWH \$.03535 Per KWH

SCHEDULE V
LARGE POWER 1,000 KW TO 2,500 KW

Rates:

Energy Charge
All KWH \$.03137 Per KWH

SCHEDULE V-A
LARGE POWER INDUSTRIAL

Rates:

Energy Charge
All Kwh \$.02501 Per KWH

SCHEDULE VI
OUTDOOR LIGHTING - SECURITY LIGHTS

Rates:

Mercury Vapor Lamps

175 Watt	\$ 5.42 Per Lamp Per Month
400 Watt	7.29 Per Lamp Per Month

Sodium Lamps

100 Watt Open Bottom	5.42 Per Lamp Per Month
100 Watt Colonial Post	6.26 Per Lamp Per Month
100 Watt Directional Flood	6.82 Per Lamp Per Month
400 Watt Directional Floor	10.35 Per Lamp Per Month
400 Watt Cobra Head	10.35 Per Lamp Per Month