

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF HARRISON COUNTY)
RURAL ELECTRIC COOPERATIVE CORPORATION,)
INC. FOR AN ADJUSTMENT TO ITS RETAIL) CASE NO. 94-432
ELECTRIC POWER TARIFFS)

O R D E R

On December 2, 1994, Harrison County Rural Electric Cooperative Corporation, Inc. ("Harrison County") filed an application to reduce its rates for retail electric service by \$730,444 annually effective January 1, 1995. The proposed rate reduction was designed to pass on to Harrison County's customers a decrease in power costs proposed by Harrison County'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 Harrison 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 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, Harrison County's power costs will decrease by an additional \$120,590 annually for a total decrease of \$851,034 annually. The manner in which this total decrease is passed on to Harrison County's customers through reduced rates is discussed below.

ALLOCATION AND RATE DESIGN ISSUES

Harrison County proposed to reduce its rates to reflect the full amount of East Kentucky's wholesale rate reduction. Harrison 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 Harrison County's existing rate design and no impact on its financial condition. Harrison 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. 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, Harrison County contended that both revenue allocation methodologies are reasonable and that one should not be favored over the other. Harrison County 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 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, Harrison 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. 94-432 DATED July 26, 1995.

The following rates and charges are prescribed for the customers in the area served by Harrison 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 - RATE 1
FARM AND HOME SERVICE

Rates:

All KWH Used \$.06058 Per KWH

RATE 1 - ETS
FARM AND HOME SERVICE
OFF-PEAK RETAIL MARKETING RATE

Rates:

All KWH Used \$.03635 Per KWH

RATE 2
COMMERCIAL AND SMALL POWER SERVICE (0 - 50 KW DEMAND)

Rates:

All KWH Used \$.06026 Per KWH

RATE 3
LARGE POWER SERVICE (50 TO 500 KW DEMAND)

Rates:

All KWH Used \$.03566 Per KWH

LPR-1. RATE 8
LARGE POWER SERVICE OVER 500 KW DEMAND

Rates:

All KWH Used \$.03314 Per KWH

LPR-2. RATE 8
LARGE POWER SERVICE 1.000 KW TO 4.999 KW

Rates:

All KWH Used \$.03229 Per KWH

LPR-2. RATE 8
LARGE POWER SERVICE 5.000 KW TO 9.999 KW DEMAND

Rates:

First 425 KWH per KW of Billing Demand \$.02972
All Remaining KWH .02220

SECURITY LIGHTS
OUTDOOR LIGHTING SERVICE

Rate Per Fixture:

<u>Type of Fixture</u>	<u>Lamp Size</u>	<u>Monthly Charge</u>
Mercury Vapor	175 Watts (73 KWH/lamp)	\$ 8.24 Per Month
Mercury Vapor	400 Watts (154 KWH/lamp)	12.85 Per Month