

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Proposed rate increase by PEACE)	DOCKET NO. 891258-EC
RIVER ELECTRIC COOPERATIVE, INC.)	ORDER NO. 22413
)	ISSUED: 1-11-90
)	

The following Commissioners participated in the disposition of this matter:

MICHAEL McK. WILSON, Chairman
 THOMAS M. BEARD
 BETTY EASLEY
 GERALD L. GUNTER

ORDER APPROVING PEACE RIVER ELECTRIC COOPERATIVE'S
 PROPOSED RATE INCREASE

BY THE COMMISSION:

On August 28, 1989, Peace River Electric Cooperative (Peace River) submitted tariffs implementing a rate increase. A cost of service study was also submitted as supporting documentation for the proposed increase. The overall rate increase of \$1.1 million is a result of increases in Peace River's wholesale power bills and other operating expenses. This rate filing is being brought to the Commission's attention because the proposed increase for the various rate classes changes the rate structure relationships between the rate classes. The proposed rates became effective October 1, 1989.

Peace River has proposed raising the rates of four of its five classes. The allocation of the increase to the various classes is based on their relative need for an increase as indicated by the cost of service study. Electric cooperatives use the Times Interest Earned Ratio (TIER) instead of rate of return to gauge the sufficiency of total revenues and to allocate rate increases to classes. On the basis of the submitted cost of service study, we find that the allocation of the proposed increase to classes narrows the range in class TIER indices from .39 to 1.95 at present rates to .78 to 1.23 at proposed rates and appears to be appropriate.

We find that the cost allocation methodology used may have incorrectly allocated too much responsibility to GS and GSD and

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too little to RS. We find that this is due to the load factors used in the derivation of the demand allocation factors and the choices of methodologies used to allocate purchased power demand charges, distribution system costs and to develop the customer weighting factor.

Peace River's cost of service study uses load factors in the derivation of the demand allocators which are inconsistent with those of nearby investor-owned utilities. The use of load factors that appear to be too low for the GS and GSD classes overallocates cost to them and underallocates cost to other classes. Because the load factors used to develop allocation factors determine the amount of cost allocated to classes by a particular methodology, the assumption of reasonable load factors is critical. Municipal and cooperative utilities are not required to collect load research data because of the high cost of collection relative to the revenues of the utilities. Because Peace River has not collected load research data, we find that the most reasonable load data Peace River can use is that of neighboring utilities subject to Rule 25-6.0437 relating to Cost of Service Load Research.

Peace River uses the Average and Excess Demand methodology to allocate purchased power demand charges, transmission and distribution system costs classified as demand-related. In the cost study, purchased power energy and fuel charges are allocated on energy. Since Peace River is billed demand charges on its demand during Seminole's monthly system peak hour, we find it inappropriate to allocate the purchased power demand charges partly on energy (average demand). To track cost causation, we find that the 12 monthly peak hour demands (12 CP) should be used to allocate the demand charges. In developing its Average and Excess Demand allocation factor, Peace River uses the 12 CP, instead of the commonly used class peak (NCP), demand to compute excess demands for each of the classes. This results in an allocation factor similar to a 12 CP factor and frustrates the intent of the Average and Excess Demand methodology to recognize energy usage in determining cost responsibility. Further, we find that Peace River should consider the use of class peak rather than the 12 CP or Average and Excess Demand for distribution plant as class peak is generally used throughout the electric utility industry to allocate demand-related distribution plant.

We are also concerned with the methodology used to derive the customer weighting factor. The customer weighting factor is

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based on the investment by class required for metering, transformation, and extension (service drop). The factor is used to allocate service drops, meters and that portion of the system (poles and wire) classified as customer-related by the minimum intercept methodology. Because the Avon Park Correctional Institution (APCI) takes service at primary voltage, no cost for transformers or an extension have been included for GSD-APCI in the derivation of the weighting factor. To apply a weighting factor based on relative class costs for metering, transformers, and secondary extensions to all distribution system costs classified as customer-related underallocates distribution system costs to the GSD-APCI class. We find that more equitable weighting factors should be developed for distribution system costs and the same factor should not be applied to all types of costs. For example, relative class meter costs should be used to allocate meter costs.

We find that Peace River should consider implementing a separate rate class for APCI because the limited load data available for APCI confirms the difference in cost of service in Peace River's study for GSD-non APCI and GSD-APCI. The customer load factor is 61.69% for APCI and 34.4% for the remainder of the GSD class. We find that the TIER indices for APCI are 2.04 and 1.80 at present and proposed rates compared to 1.51 and 1.23 for the remainder of the GSD class. We find that a time recording meter should be installed for APCI, an over 2,000 KW customer, to determine its precise share of purchased power demand charges and the size of its class peak.

We further find that, although we do not agree with Peace River's allocation methodology, derivation of allocators and resulting cost allocation to the various classes, the proposed increases should be approved because the classes' indices are probably moving closer to parity. We recommend changes in allocation methodology and derivations for future filings because we find the problems to be significant enough to require attention.

In consideration of the foregoing, it is

ORDERED that Peace River Electric Cooperative's proposed rate structure revisions are approved, with the qualification that in its next rate submission, Peace River's cost of service study should use a 12 CP allocation factor based on load factors

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consistent with those of neighboring investor-owned utilities for purchased power demand charges, unless it can justify the use of another factor, and a more equitable weighting factor(s) for customer-related costs. It is further

ORDERED that this docket be closed after the time has run in which to file a petition for reconsideration or notice of appeal if such action is not taken.

By ORDER of the Florida Public Service Commission, this 11th day of JANUARY, 1990.



STEVE TRIBBLE, Director
Division of Records and Reporting

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial

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review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.