

Alabama Public Service Commission

ALABAMA POWER COMPANY, IN RE: Acceptance of

Class Return Equalization

Adjustment Rate and

Interim Step Toward Rate

Parity; and Adoption of

Moratorium on Increases

Under Rate RSE

DOCKET 24860

ORDER

BY THE COMMISSION:

By letter dated May 25, 1995, Alabama Power Company (the Company) filed a Class Return Equalization Adjustment Rate and a proposed interim step toward rate parity. In its filing letter, the Company stated that, upon acceptance of the Class Return Equalization Adjustment Rate and the interim step toward rate parity, the Company would agree to a moratorium on rate increases (but not decreases) under Rate RSE until January, 2001, and a reduction from 15 to 14 mills per KWH in the ECR adjustment factor under Rate ECR effective July, 1995. In addition, and as part of the interim step toward rate parity, the Company would agree to waive the July, 1995, rate adjustment under Rate CNP applicable to nonresidential rate schedules, and further, to waive the operation of Rate CNP for nonresidential schedules in 1996.

Background and Description of Class Return Equalization

Adjustment Rate and Proposed Step Toward Rate Parity

The Company's residential rates have been both stable and among the lowest in the nation. According to the Jacksonville Electric Authority Residential Rate Survey, the Company's rates have increased over the last ten years from \$67.23 per thousand KWH to \$68.13 -- an increase of only 1.3 percent. The Company's rates currently rank 51st out of the 60 utilities surveyed, that is 50 of the 60 utilities have higher residential rates.

(Jacksonville Electric Authority Survey, May, 1995). During the same period in which the Company's residential rates have increased only 1.3 percent, the Consumer Price Index has risen by over 42 percent. This demonstrates that the real price of electricity has decreased substantially for residential customers in the State of Alabama.

The Company is concerned about the increasingly competitive nature of the electric utility industry, particularly competition for industrial and commercial customers. Recent initiatives by the Federal Energy Regulatory Commission under the Energy Policy Act of 1992 has opened wholesale markets to full scale competition. Further, the Company is also experiencing competition in the retail portion of its business and states that competition for industrial customers is already a fact of life. This competition takes the form of comparison shopping for electric prices when locating new and expanded business. Further, competitive pressures on the Company's existing industrial customers are causing them to reevaluate their electric rates to seek additional flexibility in order to maintain their competitive positions in worldwide markets.

The need for the Company to maintain and improve its competitive position with existing and future industrial customers is extremely important to the well-being of the citizens of this State. The Commission is of the opinion that the Company should be placed in a position that it can aggressively compete for new and expanded industry to the benefit of all of the State's citizens.

A review of the Company's 1994 Cost of Service Study shows that the overall return on investment (ROI) is 7.81 percent. The residential group has an ROI of 4.60 percent and the nonresidential group has an ROI of 10.68 percent. The Commission agrees with the Company that this comparison shows a disparity between returns that should be addressed. The Commission agrees that steps should be taken to reduce the differences in ROI and move rates toward parity. This should be done gradually and we should ensure that there is no disruption to residential customers. Fortunately, the Company is currently in a position to move toward rate parity gradually.

Acceptance of Class Return Equalization Adjustment

Rate and Interim Step Toward Rate Parity

The Commission has reviewed and hereby accepts (subject to additional provisions set forth hereinafter) the Company's filing of a Class Return Equalization Adjustment Rate to be effective immediately, but, with its first operation delayed until January, 1999. Under this rate rider, the Company will continue to perform an annual cost of service study and submit it to the Commission by May 1 of each year. If this study shows the return from the residential class to be below parity (which is defined to be plus or minus 10 percent of the overall ROI), an adjustment will be computed based on the revenues for the 12-month period ended September 30 to be effective for January billings. This adjustment will be equal to no less than one percent of the residential class revenue with an opportunity for an additional amount up to one percent if the Company satisfies both of the following tests:

(1) The additional one percent will be applicable if the total adjustment percentage is less than the increase in the Consumer Price Index for the 12-month period ended September 30 of the year preceding the adjustment (for example, if the increase in the CPI is 0.5 percent, the total adjustment is limited to one percent; if the increase in the CPI is 1.5 percent, the total adjustment is limited to 1.5 percent; or if the increase in the CPI is 2.0 percent or more, the total adjustment is limited to 2

percent.)

(2) The additional one percent will be applicable if the real price of electricity remains the same or decreases from the base calendar year of 1994. This will be determined by comparing the retail price per KWH for

the base year to the inflation-adjusted retail price per KWH for the most recent calendar year for which an Annual Report has been published before the adjustment. The retail price is defined as total retail revenues divided by total retail sales as set forth in the Company's audited Annual Report.

The customer service charge incorporated in all residential schedules will then be revised so as to produce increased revenues of the calculated amount on an annual basis. Conversely, identified rate schedules in the nonresidential group will be revised so as to reduce the total revenues by an equivalent amount on an annual basis. The effect of all such adjustments will be revenue neutral to the Company. The rate schedules to be reduced will be identified in accordance with the criteria set forth in the Class Return Equalization Adjustment Rate.

There will be no adjustments under this rate if the residential rate schedules are at parity as defined in the rate. If necessary, the first adjustment will be effective for billings beginning January, 1999, and subsequent adjustments will be made in January, 2000, and January, 2001.

The Commission has also reviewed the Company's proposed interim step toward rate parity and finds it to be reasonable. First, the Company would reduce for all rate schedules the ECR adjustment factor under Rate ECR from 15 to 14 mills per KWH effective July, 1995, and continuing thereafter for 12 months. Second, the Company would waive for the nonresidential group the upcoming adjustments under Rate CNP scheduled for July, 1995, and July, 1996, when the combustion turbine units at the Greene County Steam Plant will be placed in operation. The waiver of this adjustment for the nonresidential class will move the class rates of return toward parity.

The third component of the interim step toward rate parity involves an increase to rate schedules applicable to the residential class (Rates FD, FDE, and FDT) together with a commensurate reduction in certain nonresidential rate schedules (Rates HLF, LPL, LPEL, and LPTL). These rate revisions will be revenue neutral to the Company.

The net effect of all of these interim steps will ensure that the residential class will not be adversely impacted and rates for the average residential customer will remain the same or slightly lower. Accordingly, the Commission accepts for filing and approves the rate schedules designated in the Company's filing letter and adopts the proposed interim step toward rate parity proposed by the Company.

Moratorium on Increases Under Rate RSE

The Company states in its filing letter that it would agree to a moratorium on the operation of Rate RSE to prevent any increases in charges under any

rate schedule to which it applies prior to the adjustment (if any) to take effect January 1, 2001. Therefore, the Commission will make this order subject to the Company's filing of a freeze on the terms and conditions of Rate RSE and a moratorium on any increases under Rate RSE prior to the adjustment (if any) to take effect for July billings of 2001. Consequently, the Commission's order is contingent upon the Company accepting the above-described moratorium on the operation of Rate RSE. Further in 2000, the Commission can undertake a review of Rate RSE to ascertain whether continued operation of this form of regulation is appropriate, or whether some alternative form of regulation should be implemented in January 2001 for the State of Alabama.

As a final matter, we are aware that the Company has recently issued directives to cut O&M and capital expenditures by substantial amounts over the next five years. While the Commission is in favor of these reductions and understands the need to do so if the Company is to agree to no rate increases until 2001, we expect the Company to maintain the existing high quality of service to its customers.

IT IS, THEREFORE, ORDERED BY THE COMMISSION, as follows:

1. The Commission accepts for filing and adopts the Class Return Equalization Adjustment Rate subject to a filing of this rate-rider with the provisions set forth above. The rate-rider will become effective immediately but with the first adjustment under this rate rider delayed until January, 1999, and subsequent adjustments scheduled for January, 2000, and January, 2001. There will be no adjustments under this rate rider if the residential rates move to parity as defined therein.

2. The Commission accepts for filing and approves revised retail rate schedules (Rates FD, FDE, FDT, HLF, LPL, LPEL, and LPTL), together with a KWH adjustment to Rate RTP and certain time of use rates incorporated in contracts on file with the Commission effective for July, 1995, billings.

3. This order will be contingent upon its acceptance by the Company and the filing of a waiver of the July, 1995, and July, 1996, operations of Rate CNP applicable to nonresidential rate schedules and the agreed reduction in the Rate ECR factor for all rate schedules to which Rate ECR applies effective July, 1995. Further, the Company will indicate acceptance of this order by agreeing to a freeze on the terms and conditions of Rate RSE and a moratorium on any increases (but not decreases) prior to the adjustment (if any) to be effective July 1, 2001. Rate RSE would, however, continue to operate during this period with respect to any decreases produced in accordance with its terms. The Company should show its acceptance of these conditions, waivers and moratorium by a filing with the Commission within three (3) working days of the date hereof.

DATED at Montgomery, Alabama, this 12th day of June, 1995.

ALABAMA PUBLIC SERVICE COMMISSION

Jim Sullivan, President

Jan Cook, Commissioner

Charles B. Martin, Commissioner

ATTEST: A True Copy

Walter L. Thomas, Jr., Secretary

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