

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF MEADE COUNTY RURAL)	CASE NO.
ELECTRIC COOPERATIVE CORPORATION)	2010-00222
TO ADJUST ELECTRIC RATES)	

O R D E R

On February 17, 2011, the Commission issued an Order in this matter granting Meade County Rural Electric Cooperative Corporation ("Meade") a \$1,152,208 increase in rates. Additionally, the Commission required Meade to perform a depreciation study to be filed with the Commission by the earlier of five years from the date of that Order or the filing of Meade's next general rate case.

On March 2, 2011, Meade filed a one-sentence request for rehearing which identified the Commission's directive that Meade conduct a depreciation study as the issue to be reheard. Pursuant to our March 3, 2011 Order, Meade filed a supplemental request for rehearing on March 10, 2011, outlining the reasons why rehearing should be granted. On March 21, 2011, a telephonic informal conference ("IC") was held to discuss, in particular, Meade's support for its rehearing request.

DEPRECIATION STUDY

In its supplemental request for rehearing, Meade asks that the Commission modify the wording in its February 17, 2011 Order which directed Meade "to perform a depreciation study within five years of the date of this order, or the filing of its next rate case, whichever is earlier," by deleting the phrase, "or the filing of its next rate case,

whichever is earlier.” In support of its request, Meade states that, as of December 31, 2010, it has completed the first year of a six-year project to replace approximately 600 miles of copper wire on its system with aluminum wire. The project has been broken down into two phases with Phase I, which includes replacement of 300 miles of copper, having been approved in Meade’s most recent three-year work plan.¹ According to Meade’s estimate, the six-year project will add \$17,988,000 in assets to its wire and pole utility plant and would have a material impact on a depreciation study.² If Meade were to file a rate case within five years from the date of the Order, the concurrent depreciation study would predate completion of the wire replacement project. Meade represents that a study would better reflect its current and future utility plant if it were performed after the completion of the wire replacement project.³ The replacement is projected to be completed roughly two months prior to the end of the five-year period established by the February 17, 2011 Order.

Based on the supplemental application for rehearing and being otherwise sufficiently advised, the Commission finds that Meade’s request to delete the language

¹ Meade’s 2010-2012 Construction Work Plan was approved in Case No. 2009-00496, Application of Meade County Rural Electric Cooperative Corporation for a Certificate of Public Convenience and Necessity Pursuant to KRS 278.020(1) and 807 KAR 5:001, Section 9, And Related Sections, Authorizing Certain Proposed Construction (Ky. PSC Apr. 19, 2010).

² Meade’s March 10, 2011 Supplemental Request for Rehearing, at page 1.

³ At the IC, Meade stated that completing the replacement project before a depreciation study is performed will allow the study to consider appropriate depreciation rates for only one type of wire rather than two. Meade also indicated that performing a depreciation study after completing the replacement project will allow it to know the full impact that the early retirement of the copper wire will have on its depreciation reserve and, thereby, provide a more complete depreciation study.

requiring that it perform a depreciation study in conjunction with its next rate case is reasonable. As written, the requirement in our February 17, 2011 Order could have the unintended consequence of requiring Meade to conduct two depreciation studies, the first at the time of its next rate case and a second after completion of the wire replacement project, with the costs of both studies, which would not be insignificant, ultimately being passed on to Meade's ratepayers. Therefore, we find good cause to delete the phrase "or the filing of its next rate case, whichever is earlier" from ordering paragraph four of our February 17, 2011 Order.

FURTHER ISSUE FOR REVISION

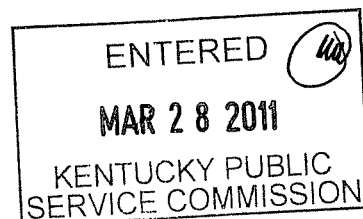
Page eight of the February 17, 2011 Order included a table with the heading Pro Forma Adjustments Summary. This table was intended to represent the net effect of both Meade's and the Commission's pro forma adjustments to Meade's test year. The table was incomplete in that it omitted "Other Income" and reflected the total of all revenues and expenses as "Net Income" rather than as "Net Margins." The Commission calculated Meade's revenue increase and new rates based on Meade's adjusted net margins of \$1,328,206, not on its adjusted net income of \$1,053,885. Therefore, correcting the table to include other income and reflect net margins has no effect on the revenue increase or rates granted to Meade in this proceeding. The following revised table should be used for any future references concerning Meade's adjusted test year and should supersede the table of Pro Forma Adjustments Summary on page eight of our February 17, 2011 Order.

	<u>Actual Test Period</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted Test Period</u>
Operating Revenues	\$ 32,033,858	\$ 103,454	\$ 32,137,312
Operating Expenses	<u>28,232,492</u>	<u>333,529</u>	<u>28,566,021</u>
Net Operating Income	3,801,366	(230,075)	3,571,291
Interest on Long-Term Debt	2,244,699	233,893	2,478,592
Interest Expense-Other	38,814		38,814
Other Deductions	15,129	(15,129)	
Other Income	<u>274,321</u>		<u>274,321</u>
NET MARGINS	<u>\$ 1,777,045</u>	<u>\$ (448,839)</u>	<u>\$ 1,328,206</u>

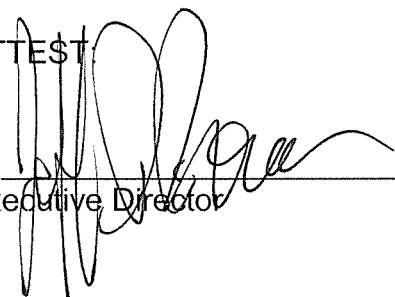
IT IS THEREFORE ORDERED that:

1. Meade's supplemental application for rehearing is granted.
2. The February 17, 2011 Order, ordering paragraph four, is modified to the extent that Meade shall be required only to perform a depreciation study within five years of the date of the Order.
3. The February 17, 2011 Order is modified at page 8 by replacing the Pro Forma Adjustments Summary table therein with the revised table set forth in the findings above.
4. All other provisions of the February 17, 2011 Order shall remain in full force and effect.

By the Commission



ATTEST



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