

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF OWEN ELECTRIC	)	
COOPERATIVE, INC. FOR AN ADJUSTMENT	)	CASE NO.
OF RATES	)	2012-00448

O R D E R

On March 12, 2013, Owen Electric Cooperative, Inc. ("Owen") filed an application seeking approval to increase its rates for electric service by \$4,074,169.<sup>1</sup> By Commission letters dated March 18 and March 20, 2013, Owen was notified that its application was deficient. In response to those letters, Owen filed information on March 25, 2013 which cured its deficiencies. The Attorney General of the Commonwealth of Kentucky ("AG"), by and through his Office of Rate Intervention, requested and was granted intervention in this matter.

Owen's application provided that its proposed rates be effective for service rendered on and after April 29, 2013. To determine the reasonableness of Owen's proposal, the Commission suspended the proposed rates, pursuant to KRS 278.190(2), for five months from their effective date, up to and including September 28, 2013.

Owen is a consumer-owned rural electric cooperative organized pursuant to KRS Chapter 279 engaged in the distribution and sale of electric energy to approximately 57,462 customers in the Kentucky counties of Boone, Campbell, Carroll, Gallatin, Grant, Kenton, Owen, Pendleton, and Scott. It is one of 16 member distribution cooperatives

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<sup>1</sup> In its July 5, 2013 response to Item 5 of Commission Staff's Fourth Information Request, Owen revised its proposed revenue requirement and increased its request by \$1,002,155 to \$5,076,324.

that own and receive their wholesale power from East Kentucky Power Cooperative, Inc. ("EKPC").

A procedural schedule was issued in this matter which provided for discovery upon Owen, intervenor testimony, discovery upon the intervenor testimony, Owen rebuttal testimony and a public hearing. Owen responded to four rounds of discovery from Commission Staff ("Staff") and one round of discovery from the AG, who is the only intervenor. No intervenor testimony was filed and there were two informal conferences.

### SETTLEMENT

On August 6, 2013, Owen submitted for approval a Settlement Agreement ("Settlement") between it and the AG.<sup>2</sup> The Commission conducted a public hearing on August 7, 2013 to take testimony concerning the reasonableness of the Settlement.

The Settlement contains the following provisions, as agreed to by Owen and the AG:

1. Owen shall be granted a Four Million Dollar (\$4,000,000) increase in annual revenue, which represents a downward adjustment from Owen's proposed revenue increase to address concerns of the AG.
2. The annual revenue increase will be effective for service rendered on and after September 1, 2013, or the date of the Commission's Order, whichever is later.
3. The adjustments necessary to effect the reduction to the proposed revenue increase from \$4.074 million to \$4 million will be made only to the Schedule 1 and 1A – Farm and Home class and Schedule 1 – Small Commercial class as set forth in Exhibit 2 of the Testimony of Mark A. Stallons in Support of the Settlement Agreement ("Stallons Settlement Testimony").

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<sup>2</sup> A copy of the Settlement is attached to this order as Appendix A.

4. Owen agrees that its Board of Directors and Management commit to continuing its 23-year history of paying capital credits on Owen-generated distribution equity, when possible and consistent with Board policy, without compromising the financial integrity of Owen.

After a thorough review of the Settlement and the evidentiary record, and being otherwise sufficiently advised, the Commission finds that the Settlement terms are reasonable, do not violate any generally accepted rate-making standards, are in the public interest, and should be accepted as a resolution of all the issues in this matter. The Commission also finds that the revenue increase contained in the Settlement is reasonable and should permit Owen a reasonable opportunity to maintain its financial integrity and comply with the covenants in its mortgage agreements. The Commission further finds that the rates contained in the application as modified by the Settlement should become effective for service rendered on and after September 1, 2013. Our approval of the Settlement is based solely on its reasonableness in toto and does not constitute approval of any particular rate-making theory or rate-making adjustment.

#### DEMAND-SIDE MANAGEMENT

Although the issues of demand-side management (“DSM”) and energy efficiency were not raised in this case, the Commission believes it appropriate to discuss DSM in a manner specific to Owen and in a generic manner as well. In its 2011 annual report to its members, Owen stated that it offers information on a variety of home improvements to reduce energy inefficiencies through the delivery of the monthly *Kentucky Living* magazine.<sup>3</sup> In addition, at the public hearing, Owen’s President and Chief Executive

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<sup>3</sup> Application, Exhibit N, *The 2011 Annual Report Of Owen Electric Cooperative*, p. 2, The Business of Reliable and Affordable Electricity.

Officer stated that Owen was working to expand its members' participation in its existing DSM programs.

Owen's Annual Report of DSM and Energy Efficiency Programs filed with Commission March 29, 2013 pursuant to the final order in Case No. 2011-00037<sup>4</sup> showed that over the last 10 months of 2012 it had more than 250 residential customers switch to either the optional time-of-day rate or the optional inclining block rate approved in that case. That report also reflected that, over the period from April 2012 through April 2013, the monthly member newsletter included in the *Kentucky Living* magazine either highlighted or was devoted entirely to its new DSM programs in four issues. In its March 29, 2013 report, Owen stated that it "has made a consistent effort to include information and reminders about its voluntary rates through its member newsletters and social media." The report also notes that Owen's members have been encouraged to call customer service and speak to representatives about whether they could benefit from switching to one of its optional DSM rate offerings.

The Commission believes that conservation, energy efficiency and DSM will become more important and cost-effective, as there will likely be more constraints placed upon utilities whose main source of supply is coal-based generation. The Governor's proposed energy plan, *Intelligent, Energy Choices for Kentucky's Future, November 2008*, calls for an increase in DSM by 2025. In addition, the Commission stated its support for cost-effective DSM programs in response to several recommendations included in *Electric Utility Regulation and Energy Policy in Kentucky*,

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<sup>4</sup> Case No. 2011-00037, Application of Owen Electric Cooperative Corporation for an Order Authorizing a Change in Rate Design for its Residential and Small Commercial Rate Classes, and the Proffering of Several Optional Rate Designs for the Residential Rate Classes (Ky. PSC Feb. 29, 2012).

the report the Commission submitted in July 2008 to the Kentucky General Assembly pursuant to Section 50 of the 2007 Energy Act.

While implementation of some pilot programs has taken longer than anticipated, it appears that Owen's efforts to educate its members about its optional DSM rates are progressing, and the Commission looks forward to receiving Owen's next annual report on its DSM and energy-efficiency programs. Although we recognize that Owen has a number of programs in place, the Commission believes it appropriate to continue to encourage Owen, and all other electric energy providers, to make a greater effort to offer cost-effective DSM and other energy-efficiency programs.

#### CHANGES IN OWEN'S RATES FOR ELECTRIC SERVICE

In Case No. 2011-00037, the Commission authorized Owen to adjust the rates of its Farm and Home and Small Commercial customers in three steps over a 36-month period, with the first step effective on March 1, 2012. Each of the three steps result in increased customer charges and reduced energy charges. The purpose of the three-step adjustment was to shift a larger share of the recovery of Owen's fixed costs from the variable component to the fixed component of these customers' rates while maintaining overall revenue neutrality. The second step in adjusting rates is to be effective for service rendered on and after September 1, 2013, which is also the effective date of the rate increase being authorized by this Order. Accordingly, the rates being approved with this Order for the Farm and Home and Small Commercial rate classes reflect the increases in customer charges previously approved in Case No. 2011-00037 as of September 1, 2013 for the second step, and as of March 1, 2015 for

the third step, plus the changes in the energy charges approved in this Order.<sup>5</sup> These are the rates that are set forth in the application as modified by Exhibit 2 to the Stallons Settlement Testimony.

IT IS THEREFORE ORDERED that:

1. The rates and charges proposed by Owen in its application are denied.
2. The Settlement appended hereto as Appendix A is incorporated into this Order as if fully set forth herein.
3. The Settlement is adopted and approved in its entirety.
4. The rates in Appendix B attached hereto, which are the rates set forth in the application as modified by the Settlement, are approved for service rendered on and after September 1, 2013 for all rate classes, and on and after March 1, 2015 for the Farm and Home and Small Commercial rate classes to reflect the third-step adjustment approved in Case No. 2011-00037.
5. Within 20 days of the date of this Order, Owen shall file with this Commission, using the Commission's Electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and reflecting their effective date and that they were authorized by this Order.

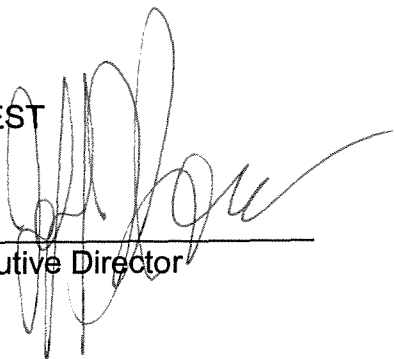
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<sup>5</sup> The Commission notes that the Farm and Home - Off-Peak Marketing Rate is intended by Owen to be 60 percent of the Farm and Home energy rate, but the application and Settlement omitted a change to this rate effective March 1, 2015 to track step three of the adjustment approved in Case No. 2011-00037. Therefore, we will include a revised Farm and Home - Off-Peak Marketing Rate in Appendix B to be effective March 1, 2015.

By the Commission

ENTERED  
AUG 30 2013  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST

  
\_\_\_\_\_  
Executive Director

Case No. 2012-00448

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2012-00448 DATED AUG 30 2013

SETTLEMENT AGREEMENT

Filed August 6, 2013



**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

**APPLICATION OF OWEN ELECTRIC )  
COOPERATIVE, INC. FOR AN ADJUSTMENT ) CASE NO.  
OF RATES ) 2012-00448**

**SETTLEMENT AGREEMENT**

This Settlement Agreement ("Settlement Agreement") is entered into this 6<sup>th</sup> day of August 2013, by and between Owen Electric Cooperative, Inc. ("Owen Electric") and Commonwealth of Kentucky, ex. rel. Jack Conway, Attorney General, by and through the Office of Rate Intervention ("AG").

**WITNESSETH:**

**WHEREAS**, on March 25, 2013, the Kentucky Public Service Commission ("Commission") accepted Owen Electric's Application for an Adjustment of Rates in a case styled, In the Matter of: Application of Owen Electric Cooperative, Inc. for an Adjustment of Rates, Case No. 2012-00448.

**WHEREAS**, the AG was granted intervention by Order of the Commission in this proceeding; and,

**WHEREAS**, an Informal Conference for the purpose of discussing settlement, and related substantive and procedural issues, took place at the Commission's offices on August 1, 2013, which

was attended by representatives of the Commission, and of the AG and Owen Electric (the "Parties"); and,

**WHEREAS**, the Parties hereto desire to settle the issues pending before the Commission in the above-referenced proceeding; and,

**WHEREAS**, the adoption of this Settlement Agreement will decrease the need for the Commission and the Parties to expend unnecessary resources litigating this proceeding; and, further, will greatly reduce the possibility of, and any need for, rehearing or appeals of the Commission's final Order herein; and,

**WHEREAS**, it is understood by all Parties hereto that this Settlement Agreement is subject to the approval of the Commission, insofar as it constitutes an agreement by the parties for settlement, and absent express agreement stated herein, does not represent agreement on any specific claim, computation, formula, allegation, assertion, contention, methodology, theory or ratemaking principle supporting the appropriateness of any proposed or recommended adjustments to Owen Electric's rates, terms, and conditions; and,

**WHEREAS**, the Parties agree that this Settlement Agreement, viewed in its entirety, is a fair, just, and reasonable resolution of the issues in the above-referenced proceeding; and,

**WHEREAS**, it is the Position of the Parties hereto that the terms about which they can all agree as reflected in this Settlement Agreement are supported by sufficient and adequate data and information, and should be approved in its entirety by the Commission.

**NOW, THEREFORE**, for and in consideration of the good-faith negotiations entered into by the Parties and the terms and conditions set forth herein, the Parties hereby stipulate and agree as follows:

**ARTICLE I—Revenue Requirements and Revenue Allocation**

1. The Parties hereto agree and stipulate that a Four Million Dollar (\$4,000,000) increase in annual revenue for Owen Electric, which represents an estimated downward adjustment to address concerns of the AG resulting in a settlement, that is fair, just, and reasonable for the Parties, and for all members of Owen Electric.
2. The Parties hereto agree that the annual revenue increase will be effective for service rendered on and after September 1, 2013, or the date of the Commission's Order placing such rates into effect, whichever is later, and this rate implementation date is fair, just, and reasonable for the Parties and for all members of Owen Electric.
3. The Parties hereto agree that the allocations of the increase in annual revenue for Owen Electric, as set forth on the schedule designated "Exhibit 2" hereto are fair, just, and reasonable for the Parties and for all members of Owen Electric.
4. Owen Electric hereto agrees that its Board of Directors and Management commit to continuing its 23-year history of paying capital credits on Owen-

generated distribution equity, when possible and consistent with Board policy, without compromising the financial integrity of the cooperative.

**ARTICLE II—Miscellaneous Provisions**

1. Except as specifically stated in this Settlement Agreement, the Parties agree that making this Settlement Agreement shall not be deemed in any respect to constitute an admission by any party hereto that any computation, formula, allegation, assertion, contention, methodology, or ratemaking principle otherwise made by any other party in these proceedings is true or valid.
2. The Parties hereto agree that the foregoing stipulations and agreements represent a fair, just, and reasonable resolution of the issues addressed herein and request the Commission to approve the Settlement Agreement.
3. The Parties hereto agree that, following the execution of this Settlement Agreement, the Parties shall cause the Settlement Agreement to be filed with the Commission by August 6, 2013, together with a request to the Commission for consideration and approval of this Settlement Agreement for rates to become effective on and after September 1, 2013.
4. Each party stipulates and recommends that the Notice of Intent, Notice, Application, testimony, pleadings, and responses to data requests filed in this proceeding be admitted into the record. The Parties stipulate that after the date of this Settlement Agreement that they will not otherwise contest Owen Electric's proposals, as modified by this Settlement Agreement, in the

hearing of the above-referenced proceeding the subject matter of the Settlement Agreement, and that they will refrain from cross-examination of the Parties' witnesses during the hearing, except insofar as such cross-examination is in support of the Settlement Agreement.

5. The Parties hereto agree that this Settlement Agreement is subject to the acceptance of and approval by the Commission. The Parties hereto further agree to act in good faith and to use their best efforts to recommend to the Commission that this Settlement Agreement be accepted and approved.
6. If the Commission issues an order adopting this Settlement Agreement in its entirety, each of the Parties agrees that it shall file neither a motion for rehearing with the Commission, nor an appeal to the Franklin Circuit Court with respect to such order.
7. The Parties hereto agree that, if the Commission does not accept and approve this Settlement Agreement in its entirety, then: (a) this Settlement Agreement shall be void and withdrawn by the parties hereto from further consideration by the Commission and none of the parties shall be bound by any of the provisions herein, provided that no party is precluded from advocating any position contained in this Settlement Agreement; and (b) neither the terms of this Settlement Agreement nor any matters discussed or raised during the settlement negotiations shall be binding on any of the Parties to this Settlement Agreement, be construed against any of the Parties in any fashion,

nor be the subject of cross-examination in any subsequent court or administrative proceeding.

8. The Parties hereto agree that, should the Settlement Agreement be voided or vacated for any reason after the Commission has approved the Settlement Agreement, then the parties shall be returned to the status quo existing at the time immediately prior to the execution of this agreement.
9. The Parties hereto agree that this Settlement Agreement shall in no way be deemed to divest the Commission of jurisdiction under Chapter 278 of the Kentucky Revised Statutes.
10. The Parties hereto agree that this Settlement Agreement shall inure to the benefit of and be binding upon the parties hereto, their successors and assigns.
11. The Parties hereto agree that this Settlement Agreement constitutes the complete agreement and understanding among the parties hereto, and any and all oral statements, representations or agreements made prior hereto or contained contemporaneously herewith shall be null and void and shall be deemed to have been merged into this Settlement Agreement.
12. The Parties hereto agree that, for the purpose of this Settlement Agreement only, the terms are based upon the independent analysis of the parties to reflect a fair, just, and reasonable resolution of the issues herein and are the product of compromise and negotiation.

13. The Parties hereto agree that neither the Settlement Agreement nor any of the terms shall be admissible in any court or administrative proceeding except insofar as such court or administrative body is addressing litigation arising out of the implementation of the terms herein or the approval of this Settlement Agreement. This Settlement Agreement shall not have any precedential value in this jurisdiction.
14. The signatories hereto warrant that they have appropriately informed, advised, and consulted their respective Parties in regard to the contents and significance of this Settlement Agreement and based upon the foregoing are authorized to execute this Settlement Agreement on behalf of their respective Parties.
15. The Parties hereto agree that this Settlement Agreement is a product of negotiation among all parties hereto, and no provision of this Settlement Agreement shall be strictly construed in favor of or against any party. Notwithstanding anything contained in the Settlement Agreement, the Parties recognize and agree that the effects, if any, of any future events upon the operating income of Owen Electric is unknown and this Settlement Agreement shall be implemented as written.
16. The Parties hereto agree that this Settlement Agreement may be executed in multiple counterparts.

IN WITNESS WHEREOF, the parties have hereunder affixed their signatures:

Owen Electric Cooperative, Inc.

HAVE SEEN AND AGREED:

By: James M. Crawford  
James M. Crawford, Counsel

Commonwealth of Kentucky, ex. rel. Jack Conway,  
Attorney  
General, by and through the Office of Rate Intervention

HAVE SEEN AND AGREED:

By: Jennifer Hans  
Jennifer Hans, Counsel



APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2012-00448 DATED AUG 30 2013

The following rates and charges are prescribed for the customers in the area served by Owen Electric Cooperative, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

SCHEDULE I  
FARM AND HOME

Effective September 1, 2013:	
Customer Charge per Month	\$ 17.10
Energy Charge per kWh	\$ .08756

Effective March 1, 2015:	
Customer Charge per Month	\$ 20.00
Energy Charge per kWh	\$ .08491

SCHEDULE I-A  
FARM AND HOME – OFF-PEAK MARKETING RATE

Effective September 1, 2013:	
Energy Charge per kWh	\$ .05254

Effective March 1, 2015:	
Energy Charge per kWh	\$ .05095

SCHEDULE I  
SMALL COMMERCIAL

Effective September 1, 2013:	
Customer Charge per Month	\$ 21.12
Energy Charge per kWh	\$ .08846

Effective March 1, 2015:	
Customer Charge per Month	\$ 25.00
Energy Charge per kWh	\$ .08634

SCHEDULE I – OLS  
OUTDOOR LIGHTING SERVICE

Monthly Rates:

Rate 2

100 Watt S/L on existing pole	\$ 11.09 per light
100 Watt S/L – one pole added	\$ 16.09 per light

Rate 3

Cobrahead 100 W on existing pole	\$ 16.46 per light
Cobrahead 100 W one pole added	\$ 22.50 per light
Cobrahead 250 W on existing pole	\$ 22.35 per light
Cobrahead 250 W one pole added	\$ 28.39 per light
Cobrahead 400 W on existing pole	\$ 27.83 per light
Cobrahead 400 W one pole added	\$ 33.87 per light

SCHEDULE I – OLS  
OUTDOOR LIGHTING SERVICE (continued)

Rate 4

Directional 100 W on existing pole	\$ 15.41 per light
Directional 100 W one pole added	\$ 21.45 per light
Directional 250 W on existing pole	\$ 18.93 per light
Directional 250 W one pole added	\$ 24.97 per light
Directional 400 W on existing pole	\$ 24.11 per light
Directional 400 W one pole added	\$ 30.15 per light

SCHEDULE II – SOLS  
SPECIAL OUTDOOR LIGHTING SERVICE

Traditional with fiberglass pole	\$ 16.26 per light
Holophane with fiberglass pole	\$ 19.31 per light

SCHEDULE VIII  
LARGE INDUSTRIAL RATE – LPC1

Customer Charge per Month	\$ 1,521.83
Demand Charge per Month per kW	\$ 7.25
Energy Charge per kWh:	
For all kWh equal to 425 hrs per kW of billing demand	\$ .04950
For all kWh in excess of 425 hrs per kW of billing demand	\$ .04585

SCHEDULE IX  
LARGE INDUSTRIAL RATE – LPC2

Customer Charge per Month	\$	3,042.58
Demand Charge per Month per kW	\$	7.25
Energy Charge per kWh:		
For all kWh equal to 425 hrs per kW of billing demand	\$	.04450
For all kWh in excess of 425 hrs per kW of billing demand	\$	.04363

SCHEDULE X  
LARGE INDUSTRIAL RATE – LPC1-A

Customer Charge per Month	\$	1,521.83
Demand Charge per Month per kW	\$	7.25
Energy Charge per kWh:		
For all kWh equal to 425 hrs per kW of billing demand	\$	.04500
For all kWh in excess of 425 hrs per kW of billing demand	\$	.04370

SCHEDULE XI  
LARGE INDUSTRIAL RATE – LPB1

Customer Charge per Month	\$	1,521.83
Demand Charge per Month per kW - Contract	\$	7.25
Demand Charge per Month per kW - Excess	\$	9.98
Energy Charge per kWh:		
For all kWh equal to 425 hrs per kW of billing demand	\$	.04950
For all kWh in excess of 425 hrs per kW of billing demand	\$	.04585

SCHEDULE XII  
LARGE INDUSTRIAL RATE – LPB1-A

Customer Charge per Month	\$	1,521.83
Demand Charge per Month per kW - Contract	\$	7.25
Demand Charge per Month per kW - Excess	\$	9.98
Energy Charge per kWh:		
For all kWh equal to 425 hrs per kW of billing demand	\$	.04500
For all kWh in excess of 425 hrs per kW of billing demand	\$	.04370

SCHEDULE XIII  
LARGE INDUSTRIAL RATE – LPB2

Customer Charge per Month	\$ 3,042.58
Demand Charge per Month per kW - Contract	\$ 7.25
Demand Charge per Month per kW - Excess	\$ 9.98
Energy Charge per kWh:	
For all kWh equal to 425 hrs per kW of billing demand	\$ .04450
For all kWh in excess of 425 hrs per kW of billing demand	\$ .04363

SCHEDULE XIV  
LARGE INDUSTRIAL RATE – LPB

Customer Charge per Month	\$ 1,521.83
Demand Charge per Month per kW - Contract	\$ 7.25
Demand Charge per Month per kW - Excess	\$ 9.98
Energy Charge per kWh	\$ .05106

SCHEDULE 1-B1  
FARM AND HOME – TIME OF DAY

Customer Charge per Month	\$ 20.00
On-Peak Energy Charge per kWh	\$ .12345
Off-Peak Energy Charge per kWh	\$ .06275

SCHEDULE 1-B2  
FARM AND HOME – TIME OF DAY

Customer Charge per Month	\$ 20.00
On-Peak Energy Charge per kWh	\$ .10587
Off-Peak Energy Charge per kWh	\$ .06275

SCHEDULE 1-B3  
FARM AND HOME – TIME OF DAY

Customer Charge per Month	\$ 20.00
On-Peak Energy Charge per kWh	\$ .10488
Off-Peak Energy Charge per kWh	\$ .06275
Shoulder Energy Charge per kWh	\$ .08025

SCHEDULE 1-C  
SMALL COMMERCIAL – TIME OF DAY

Customer Charge per Month	\$ 24.51
On-Peak Energy Charge per kWh	\$ .10413
Off-Peak Energy Charge per kWh	\$ .06026

SCHEDULE 1-D  
FARM AND HOME – INCLINING BLOCK

Customer Charge per Month	\$ 15.78
Energy Charge per kWh:	
0-300 kWh	\$ .06795
301-500 kWh	\$ .09045
Over 500 kWh	\$ .12045

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