COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF NOLIN RURAL ELECTRIC COOPERATIVE CORPORATION FOR A GENERAL RATE INCREASE	)))	CASE NO 2016-00367

ORDER

On December 15, 2016, Nolin Rural Electric Cooperative Corporation ("Nolin") tendered for filing its application for a proposed $5,342,889 increase in its electric base rates. Nolin stated that the proposed increase was required in order to cover increases in costs for power, materials, equipment, labor, and other fixed and variable costs and to meet the terms of its mortgage agreement. By letter dated December 22, 2016, the Commission notified Nolin that its application was rejected as deficient. On January 4, 2017, Nolin tendered an amended application, and the amended application was deemed filed as of that date. In the amended application, Nolin proposed that the new rates become effective on February 3, 2017. Finding that an investigation would be necessary to determine the reasonableness of Nolin's proposed increase, the Commission suspended the rates for five months, up to and including July 2, 2017.

BACKGROUND

Nolin is a member-owned rural electric cooperative corporation, organized under KRS Chapter 279, engaged in the distribution and sale of electric energy to approximately 34,703 member-consumers in Bullitt, Hardin, LaRue, Hart, Grayson, Green, Taylor, Breckinridge, and Meade counties, Kentucky.[1] Nolin has no electric generating facilities; it purchases its total power requirement from East Kentucky Power Cooperative, Inc. ("EKPC").[2]

The Commission granted a motion to intervene filed by the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"). A procedural schedule was issued which provided for discovery upon Nolin, intervenor testimony, discovery upon intervenors, and a public hearing. Nolin responded to five rounds of discovery from Commission Staff ("Staff"), two rounds of discovery from the AG, one round of post-hearing requests for information issued by Staff, and one round of post-hearing requests for information issued by the AG. No intervenor testimony was filed. A public hearing was conducted on May 18, 2017. The matter now stands submitted for a decision.

TEST PERIOD

Nolin proposed and the Commission accepted a historical 12-month period ended April 30, 2016, as the test period for determining the reasonableness of the proposed rates. In utilizing the historical test year, the Commission considered appropriate known and measurable changes.

VALUATION

Rate Base

Nolin determined a net investment rate base of $74,426,699[3] based on the adjusted test-year-end value of plant in service and construction work in progress

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[1] Nolin 2015 Annual Report (filed March 16, 2016) at 44 and 52.

[2] *Id.* at 39 and 42.

("CWIP"), the 13-month average balances for materials and supplies, and prepayments, plus a cash working capital allowance, minus the adjusted accumulated depreciation and the test-year-end level of customer advances for construction.

The Commission concurs with Nolin's proposed rate base with the exception that working capital has been adjusted to reflect the pro forma adjustments to operation and maintenance expenses. With this adjustment, Nolin's net investment rate base for ratemaking purposes is as follows:

Utility Plant in Service	$ 111,359,858
CWIP	1,738,456
Total Utility Plant	$ 113,098,314
ADD:	
Materials and Supplies	$ 1,221,173
Prepayments	206,387
Working Capital	1,267,293
Subtotal	$ 2,694,853
DEDUCT:	
Accumulated Depreciation	$ 41,869,350
Customer Advances for Construction	317,800
Subtotal	$ 42,187,150
NET INVESTMENT RATE BASE	$ 73,606,017

Capitalization and Capital Structure

The Commission finds that Nolin's capital structure at test-year-end for ratemaking purposes was $129,951,181. This capital structure consisted of $29,406,403 in equity and $100,544,778 in long-term debt. The Commission excluded generation and transmission capital credits ("GTCCs") of $34,288,149. Using this

[3] Application, Exhibit K, at 2 of 7.

capital structure, Nolin's test-year-end equity to total capitalization ratio was 23 percent.[4]

REVENUE AND EXPENSES

Nolin proposed several adjustments to revenues and expenses to reflect current and expected operating conditions.[5] The Commission finds that 14 of the adjustments proposed by Nolin and not opposed by the AG are reasonable and should be accepted without change. Those adjustments are shown in the following table:

Description	Adjustments
Normalize Revenues	(3,710,472)
Normalize Purchase Power Costs	(4,146,380)
Depreciation Expense	383,944
Depreciation Expense - Transportation Clearing	10,895
Normalize Interest on Long-Term Debt	(7,866)
Interest - Other	(36,641)
Postretirement Benefits	32,440
Professional Services	(339,418)
Directors' Expenses	(84,157)
Donations	(34,604)
Advertising	(41,206)
EKPC Capital Credits	(3,474,463)
Remove Fort Knox Activity	(1,013,124)
Year-end customer adjustment	(131,086)

The Commission makes modifications to the remaining proposed adjustments as discussed below.

Salaries & Wages

Nolin proposed an adjustment of $22,166[6] to normalize total wages and salaries, of which $4,824 was capitalized,[7] $16,230 was expensed, and $1,114 was allocated to

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[4] Nolin's response to Commission Staff's Fourth Request for Information ("Staff's Fourth Request"), Item 2.

[5] The proposed adjustments for Depreciation Expense – Transportation Clearing, Professional Services, and Directors' Expenses were revised through discovery.

[6] Application, Exhibit 1.

Ft. Knox operations.[8] Nolin's calculations for full-time employees were based on 2,080 hours. The calculations for its part-time employees were based on the number of hours actually worked during the test year. Test-year actual overtime hours were multiplied by 1.5 times the test-year-end wage rates. Employees who separated from Nolin during the test-year were removed from the normalized test year.

Nolin's normalized test year included one employee as a full-time employee who was subsequently identified as a part-time employee. Nolin proposed to include this employee in the normalized test-year as a part-time employee with 1,000 hours worked.[9] This employee actually worked 773 regular hours and 64 overtime hours in the test year. Consistent with other part-time employees, the Commission recalculated the proposed adjustment to salaries and wages to include this employee in the normalized test year based on hours actually worked during the test year, and decreased the salaries and wages adjustment from $16,230 to ($1,476).

Nolin provided salary and benefit comparison data that was used to determine employee salaries, but the study was limited in scope. The Commission has begun placing more emphasis on evaluating how salary and benefits provided by electric cooperatives are determined, and their competitiveness in a broad marketplace, as opposed to wage and salary studies limited exclusively to electric cooperatives, electric

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[7] The capitalized portion reflects actual capitalized costs and payroll costs allocated to other accounts. The other accounts include amounts assigned to clearing, stores, transportation, and employee sick leave. Unless otherwise noted, references in this Order to "capitalized" reflect this combination of actual capitalized costs and other costs.

[8] Adjustments were allocated between Nolin and Ft. Knox based on actual test-year payroll amounts.

[9] Nolin's response to Commission Staff's Post-Hearing Request for Information ("Staff's Post-Hearing Request"), Item 6.

utilities, or other regulated utility companies.[10] Future rate applications filed by Nolin will be required to include a formal study that provides local wage and benefit information for the geographic area where Nolin operates and must include state data where available.

Payroll Taxes

Nolin proposed to increase its payroll taxes by $7,544,[11] based on the proposed normalization of wages and salaries and reflecting the Federal Insurance Contribution Act, Medicare, and federal and state unemployment wage limits and rates in effect at the test-year end. Of this amount, $1,714 was capitalized, $5,471 was expensed, and $359 was allocated to Ft. Knox operations.[12] The Commission recalculated the proposed adjustment to payroll taxes to include the decrease in normalized test-year salaries and wages for the reclassification of an employee as part-time and to reflect the proper allocation factors,[13] and has decreased the payroll tax adjustment from $5,471 to $2,670.

Retirement Benefits

Nolin provides pension benefits for substantially all employees through participation in the National Rural Electric Cooperative Association ("NRECA") Retirement and Security ("R&S") Program. R&S contributions are based on base wages at a rate determined by NRECA. Nolin's plan discontinues coverage when an employee has accumulated 30 years of service, and contributions to the plan

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[10] *See* Case No. 2015-00312, *Application of Kenergy Corp. for a General Adjustment in Rates* (Ky. PSC Sept. 15, 2016) at 15.

[11] Application, Exhibit 2.

[12] *Id.*

[13] Nolin's response to Staff's Fourth Request, Item 3.

discontinue at that time. The contribution rate increased from 24.53 percent of base wages in 2015 to 25.28 percent of base wages in 2016.[14] Nolin originally proposed an increase of $78,545 of which $17,848 was capitalized, $56,963 was expensed, and $3,734 was allocated to Ft. Knox operations.[15] Through discovery, it was determined that the original calculation excluded contributions for an employee,[16] utilized actual test-year wages instead of normalized test-year wages,[17] and included a part-time employee who is not eligible for Nolin's benefits package.[18] The Commission recalculated the proposed adjustment to R&S contributions to include these corrections, and has increased the adjustment from $56,963 to $130,739.

Miscellaneous Expenses

Nolin proposed to reduce test-year expenses by $18,408 to remove certain expenses not normally included for ratemaking purposes. The Commission agrees with the reductions proposed by Nolin. However, the Commission has identified additional adjustments that should be made. Miscellaneous expenses included an expenditure of $3,090 for shirts for Nolin employees to wear while working at the annual meeting, and $5,704 for Nolin logo clothing for employees not required to wear mandatory safety clothing. Nolin stated that shirts are provided for employees working at the annual meeting to identify the employees to its members, and employees wear these shirts

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[14] Application, Exhibit 6.

[15] *Id.*

[16] Nolin's response to Commission Staff's Third Request for Information ("Staff's Third Request"), Item 16.

[17] Nolin's Response to Staff's Post-Hearing Request, Item 3.

[18] *Id.*, Item 6.

after the annual meeting for similar reasons.[19] Nolin states that clothing not related to the annual meeting is provided for identification purposes in fairness to employees that are not required to wear protective clothing.[20] The Commission believes that there are much less expensive alternatives for identifying cooperative employees (i.e., nametags or badges) than incurring an expenditure of this magnitude.[21] The Commission believes these funds should be expended in a manner that provides a greater benefit to the ratepayers. Accordingly, the Commission will remove $8,794 from miscellaneous expenses.

The Commission will also remove a total of $7,283 from miscellaneous expenses related to refreshments and gifts to employees, retirement and holiday dinners, and bill credits awarded as prizes at the annual meeting that are traditionally excluded for ratemaking purposes.

It has been the Commission's practice to allow only the expenses of the cooperative's designated representative to attend the NRECA Annual Meeting unless it can be demonstrated the expenses were incurred for educational or training purposes for the attendees. Lacking such evidence in this case, the Commission will reduce miscellaneous expenses by $8,634 to remove expenses related to three employees' and two directors' attendance at the NRECA Annual Meeting who were neither Nolin's designated NRECA representative nor speakers at the event. Finally, the Commission will also reduce miscellaneous expenses by $1,613 to remove expenses related to

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[19] Nolin's response to Staff's Third Request, Item 3.s.

[20] *Id.*, Item 3.i.

[21] *See* Application, Exhibit 10 at 6, line 12. Nolin expended only $71.76 for "Employee Name Badges" for its annual meeting.

attendance at NRECA legislative conferences, which the Commission deems to be associated with lobbying activities.

Adding these additional items to Nolin's adjustment of $18,408, the Commission has reduced miscellaneous expenses by a total of $44,732.

Rate Case Expense

Nolin estimated its rate case expense at $75,000. It proposed to recover this expense through a three-year amortization. This estimate did not include in-house labor. Throughout this proceeding, Nolin has been providing updates of the actual expenses incurred in presenting this rate case. As of May 31, 2017, Nolin had expended $165,519 to prepare and process this rate case, and estimated it would incur an additional $16,481 in legal and other fees for a total rate case expense of $182,000.[22] The Commission finds that a three-year amortization of these expenses is reasonable and will allow an increase in operating expense of $60,667 to reflect the first year of the amortization for ratemaking purposes.

PSC Assessment

Nolin did not propose an adjustment to its PSC Assessment to reflect the effects of normalizing revenues and purchased power expense or the impact of its proposed revenue increase. The Commission has determined that an adjustment to the PSC Assessment to reflect the normalization of revenue and purchased power expense found reasonable herein is appropriate. Based on the 2016–2017 assessment rate, the adjustment results in a $24,033 decrease in the PSC Assessment for the test year. The Commission has determined that an adjustment to the PSC Assessment based on the revenue increase being granted herein should also be calculated. This calculation

[22] Nolin's response to Staff's Post-Hearing Request, Item 13.

results in an increase in the PSC Assessment of $11,590. The total result of these adjustments is a decrease of $12,443 in the PSC Assessment.

401(k) Matching Contributions

Nolin participates in the NRECA R&S program and matches employees' contributions to 401(k) plans, up to 2 percent for eligible employees.[23] The Commission believes that Nolin should take more aggressive steps to control compensation and benefit costs. The Commission accepts that all employees should have a fair and reasonable retirement benefit, but finds it excessive and not reasonable that Nolin continues to contribute to both the R&S Defined Dollar Benefit ("DDB") plan as well as a matching 401(k) plan. The Commission will allow Nolin to recover only the costs of the more expensive DDB for employees who participate in both the DDB and the matching 401(k) plan and the 401(k) plan for employees that no longer qualify for R&S contributions from Nolin. Accordingly, the Commission will remove for ratemaking purposes Nolin's test-year 401(k) contributions for employees who participated in both plans. Nolin's test-year expense for 401(k) contributions to these employees was $104,709.[24] Recognizing the portion that would be capitalized, the Commission will remove $99,731 from the test year for employee 401(k) plan expense.

Employee Contribution for Health and Life Insurance

Nolin currently pays 100 percent of the monthly premiums for health insurance for its employees and their spouses and dependents. Nolin also pays 100 percent of

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[23] Nolin's Response to Staff's Third Request, Item 15.b.

[24] *Id.* Item 16, revised "Exhibit 6," and Nolin's response to Commission Staff's Fifth Request for Information ("Staff's Fifth Request"), Item 3, (Revised) Attachment 16A.

life insurance premiums for its employees.[25] The Commission expects Nolin to be more cognizant of controllable costs incurred at unreasonable levels including expenses associated with employee benefits, by establishing a policy of limiting Nolin's contribution to health insurance premiums and requiring that employees pay some portion of those premiums. The Commission finds that Nolin should limit its contributions to its employees' health care plans to percentages that are marketplace competitive in order to reduce excessive expenses. Accordingly, the Commission will adjust test-year health premiums based on national average employee contribution rates. The Commission has reduced health insurance premiums for family coverage by $397,137, based on a 32 percent employee contribution rate, and for single coverage by $11,563, based on a 21 percent employee contribution rate.[26] The Commission will accept the test-year expense for life insurance premiums in this case. However, any future Nolin rate increase request for cooperative paid life insurance premiums will be capped at the lesser of two times the employee's annual salary or $100,000.

Reduction of Nonrecurring Charges

As discussed below, the Commission will reduce Nolin's nonrecurring charges for remote connections, disconnections, and reconnections. The reduction results in a decrease in test-year revenues of $137,610.

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[25] Nolin's response to Commission Staff's Second Request for Information ("Staff's Second Request"), Item 22.

[26] Bureau of Labor Statistics, Healthcare Benefits, March 2016, Table 4, private industry workers. (https://www.bls.gov/ncs/ebs/benefits/2016/ownership/private/table10a.pdf).

Pro Forma Adjustments Summary

The effect of the pro forma adjustments on Nolin's net income is as follows:

	Actual Test Period	Pro Forma Adjustments	Adjusted Test Period
Operating Revenues	$69,728,403	$ (6,134,704)	$63,593,699
Operating Expenses	68,485,045	(6,625,543)	61,859,502
Net Operating Income	1,243,358	490,839	1,734,197
Interest on Long-Term Debt	3,024,787	(1,314,512)	1,710,275
Interest Expense-Other	41,086	(36,641)	4,445
Other Income and (Deductions) – Net	1,340,891	(5,792,146)	(4,451,255)
NET INCOME	$ (481,624)	$ (3,950,154)	$ (4,431,778)

REVENUE REQUIREMENTS

The actual rate of return earned on Nolin's net investment rate base established for the test year was (1.25) percent.[27] Nolin requests rates that would result in a TIER excluding GTCCs of 2.00X and a rate of return of 3.23 percent on its proposed rate base of $74,426,699. Nolin proposes an increase in revenues of $5,342,889 to achieve a 2.00X TIER excluding GTCCs. Nolin's actual TIER excluding GTCCs for the test period was (0.31)X.[28] For the calendar years 2014 and 2015, it was 1.38X and (1.67)X, respectively.[29] After taking into consideration pro forma adjustments, Nolin would achieve a (1.59)X TIER excluding GTCCs without an increase in revenues.

Nolin is currently a 100 percent borrower with National Rural Utilities Cooperative Finance Corporation ("CFC"). CFC requires Nolin to maintain an Average Modified Debt Service Coverage Ratio ("MDSC") of at least 1.35, determined by averaging the

[27] Application, Exhibit K, at 3 of 7.

[28] *Id.*, at 6 of 7.

[29] *Id.*, at 6 of 7.

two highest annual ratios during the most recent three calendar years.[30] For the calendar years 2014, 2015, and 2016, it was 1.00, (0.05), and 0.53, respectively.[31] Nolin's proposed revenue increase would result in a MDSC of 1.76.[32] Nolin explained that it used the TIER method for determining its revenue requirements and increase in revenue, as this has been the approach used by the Commission in the past.[33]

Given that Nolin is a borrower only from CFC, the Commission finds that determining revenue requirements based on TIER is not reasonable for Nolin, but believes it is more appropriate to base the revenue requirement on MDSC. The Commission has determined that a MDSC of 1.73 is reasonable and allows Nolin to meet its mortgage requirements and service its debt. Based upon the pro forma adjustments found reasonable herein, the Commission has determined that an increase in Nolin's revenues of $4,969,492 would result in a MDSC of 1.73. This additional revenue should produce net income of $1,539,247. The Commission has determined that the above increase in revenues should result in a TIER of 1.90X. Based on the net investment rate base of $73,606,017 found reasonable herein, this additional revenue should result in a rate of return on rate base of 3.05 percent.

PRICING AND TARIFF ISSUES

Cost of Service

Nolin filed a fully allocated cost-of-service study ("COSS") in order to determine the cost to serve each customer class and the amount of revenue to be allocated to

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[30] Application, Exhibit H-2, at 3 of 5.

[31] Nolin's response to Staff's Third Request, Item 5, Attachment 5A.

[32] *Id.*

[33] Nolin's response to Staff's Second Request, Item 3.c.

each customer class. Having reviewed Nolin's COSS, the Commission finds it to be acceptable for use as a guide in allocating the revenue increase granted herein.

Revenue Allocation

With the exception of Schedule 5, Security Lights, Nolin proposed an increase for every rate class that has customers, even if the class is already providing revenues in excess of the cost to serve. The results of the COSS indicated that the residential rate class (including Prepay) and the street lighting rate class provide revenues less than the cost to serve, while all other rate classes produce revenues in excess of their class cost to serve.[34] Nolin states that proposing rate increases for the over-contributing rate classes allows the proposed increase for the residential rate class to better reflect the results of the COSS and minimizes the impact of an increase for the residential rate class to the most reasonable possible extent.[35] Nolin also proposed to increase the demand charge for Schedule 3 – Large Power Rate to match the wholesale demand charge as the existing rate was below EKPC's schedule E-2 wholesale rate. The Commission finds that Nolin's proposed revenue allocation is reasonable for use in this case.

Rate Design

The proposed rate design uses the COSS as a general guide for Nolin's rate class increases and as noted above, Nolin is proposing to allocate the proposed increase to most rate classes. Schedule 1 – Farm and Home, Prepay Service, and Schedule 2 – Small Commercial and Small Power all receive a proposed increase in

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[34] Nolin's response to Staff's Second Request, Item 7, Exhibit R, First Revision, at 38 and 40 of 44.

[35] *Id.*, Item 4.

both the customer and energy charge. Nolin states that increasing the customer charge better matches the customer-related costs, but the increase is still significantly less than the full cost recovery of the customer related costs.[36] Nolin proposes to consolidate the three-step energy rate for Schedule 3 – Large Power Rate and increase its customer charge. For Schedule 4 – Industrial Rate, Nolin also proposes to consolidate its three-step energy rate into one and to introduce a customer charge, as this rate class does not currently have a customer charge. Nolin proposes an increase in both the contract and excess-demand charges for Schedule 10 – Large Industrial Rate coupled with a decrease in the energy charge per kilowatt-hour ("kWh"). For Nolin's Special Contract Rate 15, only a change in the customer charge is proposed.

The Commission concludes that, for an electric cooperative that is strictly a distribution utility, there is merit to the argument that there is a need for a means to guard against the revenue erosion that often occurs due to the decrease in sales volumes that accompanies poor regional economics, changes in weather patterns, and the implementation or expansion of demand-side management and energy-efficiency programs. However, the Commission believes that Nolin's proposed 121 percent increase in the residential customer charge from $9.04 to $20.00 does not support the general principle of gradualism. For this reason, the Commission will approve a customer charge for the Residential rate class of $13.50, an increase of approximately 50 percent. All other proposed customer charges are approved. The table below shows the current, proposed, and approved customer charges for those classes with customers, along with the amounts supported by the COSS.

[36] Application, Exhibit H-3, Direct Testimony of James Adkins, at 5.

	Current	Proposed	Approved	COSS Results
Farm, Home and Prepay	$9.04	$20.00	$13.50	$32.20
Small Commercial and Small Power	$16.82	$23.00	$23.00	$34.04
Large Power	$28.50	$35.00	$35.00	$84.43
Industrial Rate	-	$42.50	$42.50	$91.93
Large Industrial	$1,219.84	$1,219.84	$1,220.00	$1,974.78
Special Contract	$1,188.66	$5,454.00	$5,454.00	$5,733.00

The Commission approves the proposed consolidation of the three-step energy rates into one energy rate for the applicable classes. Additionally, the Commission approves the proposed increase to demand rate Schedule 3 – Large Power Rate, whose demand rate is below EKPC's so as to match EKPC's Schedule E-2 Wholesale Rate.[37]

The Commission believes that the daily rate for the Prepay Metering Program should be revised. The previous daily rate calculation from Case No. 2011-00141[38] included the cost of a prepay meter. Currently, Nolin's AMI metering system is fully deployed and Nolin no longer incurs an additional cost for meters for the Prepay program, so the daily fee should be revised. In response to Staff's Post-Hearing Data Request, Nolin submitted a revised prepay rate.[39] This revised prepay rate included a monthly labor expense of $5.80. The addition of this monthly labor expense was not included in Case No. 2011-00141, and therefore will be disallowed. However, this disallowance reduces the monthly fee to $0.00. The Commission believes that it is reasonable for some fee to be associated with the Prepay Program and will allow

[37] Nolin's response to Staff's Second Request, Item 23. The demand rate for Schedule 4 – Industrial Rate will remain below the wholesale cost as its billing demand revenue is currently recovering its wholesale demand related costs through its demand charge.

[38] Case No. 2011-00141, *Application of Nolin Rural Electric Cooperative Corporation for Approval of a Prepay Metering Pilot Program Tariff*, (Ky. PSC June 20, 2011).

[39] Nolin's response to Staff's Post Hearing Request, Item 26.

transaction fees to be associated with the daily prepay rate. In the most recent approved prepay application, Case No 2015-00337,[40] a total of three transactions per month were allowed. Each transaction was estimated to be $1.05, for a total cost of $3.15 per month.[41] The Commission believes this to be a reasonable fee; therefore, Nolin should charge a daily fee of $0.104 for the prepay program.[42]

Due to the lowering of the revenue requirement, as a result of the adjustments found reasonable herein, the decrease will be applied to the volumetric charges and will be allocated proportionally amongst the rate classes. Based on Nolin's average monthly residential usage of 1,127 kWh, the average monthly bill for residential customers will increase by $12.09, from $105.91 to $118.00 or 11.4 percent.

Nonrecurring Charges

As of July 18, 2016, Nolin's Advanced Metering Infrastructure ("AMI") meter project, as approved in Case 2014-00436,[43] was fully deployed and completed.[44] Nolin stated in its application in Case No. 2014-00436 that it projected cost savings related to the new AMI system, and specifically to costs associated with remote connections, disconnections, and reconnections ("connection fees"). In response to Staff's Post-Hearing Data Request, Nolin provided a cost justification of its connection fees. Nolin's response proposes a connection fee of $17.00, a $3.00 reduction from the current

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[40] Case No. 2015-00337, *Application of Big Sandy Rural Electric Cooperative Corporation for Approval of a Prepay Metering Program Tariff*, (Ky. PSC Apr. 7, 2016).

[41] *Id.*, Exhibit C, at 3.

[42] $3.15/(365/12)=$0.104

[43] Case No. 2014-00436, *Application of Nolin Rural Electric Cooperative Corporation for an Order Pursuant to KRS 807 5:001 and KRS 278.020 Requesting the Granting of a Certificate of Public Convenience and Necessity to Install an AMI System*, (Ky. PSC Feb. 13, 2015).

[44] Response to Staff's Fourth Request, Item 23.

$20.00 fee. Included in the cost justification are labor costs to process the connection request, and Nolin claims that this processing is estimated to take one-half hour. The Commission believes that this total processing time is inflated. In the most recent case approving connection fees, Case No. 2016-00169,[45] Cumberland Valley Electric, Inc. estimated one-fourth of an hour to process the service order for a remote disconnect/reconnect. The Commission believes that this is an acceptable time estimate. Recalculating Nolin's cost justification at the lower processing time reduces the proposed fee to $10.00.[46]

OTHER ISSUES

Unclaimed Capital Credits

Pursuant to KRS 272.291, Nolin may recover unclaimed capital credits, which were mailed to its member's last-known address as recorded in Nolin's records, returned by U.S. mail, and not claimed for a period of five years. KRS 272.291 provides that, when the capital credits have remained unclaimed for five years, the amounts may be placed in Nolin's income for the year in which such determination is made and redistributed to the current members for that year. The Commission expects that Nolin will place unclaimed capital credits into its income and redistribute those funds pursuant to the provisions of KRS 272.291.

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[45] Case No. 2016-00169, *Application of Cumberland Valley Electric, Inc. for a General Adjustment of Rates*, (Ky. PSC Feb. 6, 2017).

[46] Total labor costs = $35.26*0.25=8.82, rounding up to $10.00.

Depreciation Issues

Nolin's last depreciation study was prepared as of December 31, 1998.[47] The Commission has historically required electric utilities subject to its jurisdiction to regularly prepare depreciation studies. The Commission believes that it is appropriate to conduct a new depreciation study every five years to keep depreciation rates current and to minimize the impact of any changes that have occurred since the previous study. Accordingly, the Commission will require that Nolin perform a new depreciation study within five years from the date of this order, or in conjunction with its next rate case, whichever is earlier.

SUMMARY

The Commission, after consideration of the evidence of record and being otherwise sufficiently advised, finds that:

1. The rates proposed by Nolin would produce revenues in excess of the amount found reasonable herein and should be denied.

2. The rates set forth in the Appendix to this Order are the fair, just and reasonable rates for Nolin to charge for service rendered on and after the date of this Order and should be approved.

3. The rate of return, TIER, and MDSC granted herein will provide for Nolin's financial obligations.

4. As provided previously in this order, future rate applications must include a formal study that provides local wage and benefit information for the geographic area where Nolin operates and must include state data where available.

[47] Nolin's response to Staff's Fifth Request, Item 5.b.

IT IS THEREFORE ORDERED that:

1. The rates proposed by Nolin are denied.

2. The rates set forth in the Appendix to this Order are approved for services rendered by Nolin on and after the date of this Order.

3. Within 20 days of the date of this Order, Nolin 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.

4. In future rate applications, Nolin shall perform a formal study that provides local wage and benefit information for the geographic area in which Nolin operates, and which shall include state data where available.

5. Nolin shall perform a depreciation study within five years from the date of this Order, or in connection with the filing of its next rate case, whichever is earlier.

By the Commission

ENTERED
JUN 21 2017
KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:

Talina R. Mathews

Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2016-00367 DATED JUN 2 1 2017

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

SCHEDULE 1
RESIDENTIAL, FARM, NON-FARM, TRAILERS AND MOBILE HOMES

Customer Charge	$	13.50
Energy Charge per kWh	$	0.09271
Prepay Charge per day	$	0.104

SCHEDULE 2
COMMERCIAL, SMALL POWER, SINGLE PHASE AND THREE PHASE SERVICE

Customer Charge	$	23.00
Energy Charge per kWh	$	0.09213

SCHEDULE 3
LARGE POWER

Customer charge	$	35.00
Demand Charge per Kw	$	6.02
Energy Charge per kWh	$	0.07386

SCHEDULE 4
INDUSTRIAL

Customer Charge	$	42.50
Demand Charge per kW	$	4.95
Energy Charge per kWh	$	0.06515

SCHEDULE 5
SECURITY LIGHTS

Monthly Rate:

HPS 100 Watt	$ 10.06
LED 70 Watt	$ 9.51
Colonial Type 100 Watt HPS	$ 13.07
Directional Flood Light 100 Watt HPS	$ 8.82
Directional Flood Light 70 Watt LED	$ 16.93
Directional Flood Light 250 Watt HPS	$ 14.93
Directional Flood Light 108 Watt LED	$ 17.75
Directional Flood Light 400 Watt HPS	$ 20.33
Directional Flood Light 208 Watt LED	$ 19.95
Contemporary Type 400 Watt HPS	$ 21.80
30 Foot Fiber Glass Pole – Underground	$ 10.63
25 Foot Wood Pole – Overhead	$ 2.46
30 Foot Wood Pole – Overhead	$ 2.84
25 Foot Wood Pole – Underground	$ 3.44
30 Foot Wood Pole – Underground	$ 3.83
Acorn Contemporary 400 Watt HPS	$ 34.26
Santa Rosa Contemporary 150 Watt HPS	$ 33.59
Santa Rosa Contemporary 150 Watt HPS (excludes light fixture and pole)	$ 9.37
Temporary Meter Poles	$ 20.00

SCHEDULE 6
STREET LIGHTING

Monthly Rate:

Standard Overhead Wood Pole	
HPS Fixture 100 Watt	$ 10.18
HPS Fixture 250 Watt	$ 15.43
HPS Fixture 400 Watt	$ 20.13
LED Fixture 70 Watt	$ 10.02
LED Fixture 108 Watt	$ 11.69
LED Fixture 208 Watt	$ 16.90
Ornamental Overhead Aluminum Pole	
HPS Fixture 100 Watt	$ 23.09
HPS Fixture 250 Watt	$ 27.41
HPS Fixture 400 Watt	$ 31.28
Ornamental Underground (Fiberglass Pole)	
HPS Fixture 400 Watt	$ 36.43
HPS Fixture 150 Watt Santa Rosa with Fluted Pole	$ 35.41
HPS Fixture (Charge Exclude Light Fixture and Pole)	$ 9.88

SCHEDULE 10
INDUSTRIAL

Customer Charge	$1,220.00
Demand Charge	
Contract Demand per kW	$ 7.17
Excess Demand per kW	$ 9.98
Energy Charge per kWh	$ 0.04966

SPECIAL CONTRACT
RATE 15 (INTERRUPTIBLE)

Customer Charge	$5,454.00
Demand Charge	
Contract Demand per kW	$ 6.98
Excess Demand per kW	$ 2.78
Energy Charge per kWh	$ 0.04313

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