

COMMONWEALTH OF KENTUCKY  
BEFORE THE ENERGY REGULATORY COMMISSION

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In the Matter of

THE FILING OF A BASIC )  
RATE INCREASE BY SALT )  
RIVER RURAL ELECTRIC )  
COOPERATIVE CORPORATION ) CASE NO. 7563  
OF BARDSTOWN, KENTUCKY, )  
APPLICABLE TO ALL CONSUMERS )

O R D E R

On August 31, 1979, Salt River Rural Electric Cooperative Corporation (Salt River) filed an Application with the Commission proposing to increase its annual revenues by \$847,860, an increase of approximately 7.8%. Salt River stated that the increase is required in order to continue to operate on a sound financial basis and continue to provide service to its consumers.

The Commission, in order to determine the reasonableness of the proposed rates, set a public hearing for October 24, 1979. Notice of such hearing was made by the Applicant in manners prescribed by Kentucky law and the rules and regulations of this Commission.

The hearing was held as scheduled in the Commission's offices in Frankfort, Kentucky, with one intervenor being present. At the hearing, Salt River filed an amended Application correcting certain adjustments and revising the proposed rates to reflect those granted it in Case No. 7404. This Case (No. 7404) authorized Salt River to pass through to its consumers the increased costs of purchased power from its supplier, East Kentucky Power Cooperative, Inc. At the conclusion of the hearing and following response to all requests for additional information, the matter was submitted to the Commission for final determination.

Salt River provides electric service to approximately 16,900 consumers in Bullitt, Marion, Mercer, Nelson, Spencer, and Washington Counties, Kentucky. Salt River's sole supplier of electric energy is East Kentucky Power Cooperative, Inc.

TEST PERIOD

The Commission has accepted Salt River's proposed test year, the twelve-month period ending April 30, 1979, to determine the reasonableness of the proposed rates.

VALUATION METHODS

Net Investment

Salt River proposed a Net Investment Rate Base of \$11,044,176 in its Exhibit H. The Commission accepts this rate base with three exceptions. Customer Advances of \$110,067 have been deducted from the rate base in conformity with past Commission policy. Cash Working Capital is computed using the adjusted operating and maintenance expenses rather than actual year-end balances. However, operating taxes have been deducted from Cash Working Capital and the balance revised upward by \$8,101 to \$261,029. Subsequent to the preparation of Exhibit H, Salt River revised its proposed adjustment to Accumulated Depreciation. The result of this revised adjustment is to reduce Salt River's pro forma Accumulated Depreciation by \$30,599 to \$3,067,300. The net effect of these adjustments is to reduce the proposed rate base by \$71,367.

The Commission finds that Salt River's Net Investment devoted to its utility operations at the end of the test period is as follows:

Utility Plant in Service	\$13,508,597
Construction Work in Progress	37,959
Materials and Supplies	245,975
Prepayments	96,616
Cash Working Capital	261,029 <sup>(1)</sup>
Subtotal	<u>\$14,150,176</u>
Less:	
Accumulated Depreciation	\$ 3,067,300
Customer Advances	110,067
Subtotal	<u>\$ 3,177,367</u>
Net Investment	<u>\$10,972,809</u>

Capital Structure

The Commission finds, from the evidence of record, Salt River's Capital Structure at the end of the test-year to be

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(1) One-eighth (1/8) of adjusted operating and maintenance expenses less purchased power.

\$11,805,512, consisting of \$8,251,546 of debt and \$3,553,966 of equity. Non-cash patronage capital credits in the amount of \$528,033 have been excluded from the equity portion in conformity with past Commission policy. This valuation method is the same as presented by Salt River in its Exhibit J.

Due consideration has been given to other elements of value not reflected in the evidence of record. The rates of return found reasonable on the above-mentioned valuation methods will provide Salt River with sufficient revenues to meet the mortgage requirements of its principal lending agents.

REVENUES AND EXPENSES

Salt River proposed several adjustments to its income statement as reflected in its amended Exhibit B. We find these adjustments to be known and measurable and accept them for rate-making purposes with one exception. We have reduced the proposed adjustment to right-of-way clearing maintenance expense by \$100,675 to \$83,000. We feel that without this additional funding for proper maintenance Salt River's consumers will suffer increased service interruptions and line losses.

After including the accepted adjustments, Salt River's test period operations are adjusted as follows:

	<u>Actual</u>	<u>Proforma Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$9,654,442	\$1,160,069	\$10,814,511
Operating Expenses	<u>9,442,852</u>	<u>1,121,937</u>	<u>10,704,789</u>
Net Operating Income	\$ 211,590	\$ (101,868)	\$ 109,722
Other Income (Deductions)			
Net	(302,570)	(54,020)	(356,590)
Net Income (Loss)	<u>\$ (90,980)</u>	<u>\$ 157,888)</u>	<u>\$ (264,868)</u>

RATE OF RETURN

The Commission is of the opinion that the adjusted rate of return of 1.0% is clearly deficit and is unfair, unjust, and unreasonable.<sup>(2)</sup>

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<sup>(2)</sup> \$109,722 ÷ \$10,972,809

We are of the opinion that a fair, just, and reasonable rate of return is 7.5%. To achieve these earnings, Salt River is entitled to increase its electric rates to generate additional annual revenues of \$713,239 based on test-period conditions.<sup>(3)</sup>

The rates and charges set out in attached Appendix "A" are designed to produce annual revenues of approximately \$11,527,750 including the additional revenues granted herein.

#### RATE DESIGN

Salt River proposed to change its rate structure by consolidating certain consumer rate classifications and, further, by flattening energy usage within the existing declining block rate structure. As the Commission finds that this reflects a move toward the rate-making standards contained in the National Energy Act, more specifically, the Public Utility Regulatory Policies Act of 1978 (PURPA), and that it encourages energy conservation, the proposed change has been incorporated in Appendix "A".

#### SUMMARY

The Commission, after considering all the evidence of record and being fully advised, is of the opinion and so FINDS:

That a fair, just, and reasonable rate of return is 7.5% and that to achieve these earnings Salt River is entitled to generate additional annual revenues of \$713,239.

That the rates and charges set out in Appendix "A" attached hereto and made a part hereof will produce gross annual revenues in the amount of approximately \$11,527,750 and are the fair, just, and reasonable rates for the Applicant to charge for electric service in that they will produce revenues sufficient to permit it to pay its operating expenses and service its debt.

That the rates proposed by Salt River in this Case are unfair, unjust, and unreasonable in that they produce gross annual revenues in excess of \$11,527,750 and should be denied.

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<sup>(3)</sup> \$10,972,809 x .075 = \$822,961 - \$109,722 = \$713,239

IT IS THEREFORE ORDERED, that the rates sought by Salt River Rural Electric Cooperative Corporation in this Case be and the same are hereby denied.

IT IS FURTHER ORDERED, that the rates set out in attached Appendix "A" are hereby approved for electric service rendered by Salt River Rural Electric Cooperative Corporation on and after the date of this Order.

IT IS FURTHER ORDERED, that the Applicant shall file with this Commission within thirty (30) days from the date of this Order its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this the 5th day of March, 1980.

ENERGY REGULATORY COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

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Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE ENERGY REGULATORY  
COMMISSION IN CASE NO. 7563 DATED MARCH 5, 1980

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

Schedule A-5 Farm and Home Service\*

Type of Service

Single-phase 60 cycles, at available secondary voltage.

Rate

First	40 KWH per month (minimum bill)	\$5.00 per Month
Next	60 KWH per month	.0514 per KWH
Next	100 KWH per month	.0386 per KWH
Next	800 KWH per month	.0358 per KWH
Next	1,000 KWH per month	.0328 per KWH
Over	2,000 KWH per month	.0288 per KWH

Minimum Charge

The minimum monthly charge under the above rate shall be \$5.00 where 25 KVA or less transformer capacity is required. For members requiring more than 25 KVA transformer capacity, the minimum monthly charge shall be increased at the rate of .75 of each additional KVA or fraction thereof required. Payment of the minimum charge shall entitle the member in all cases to the use of the number of kilowatt hours, corresponding to the minimum charge in accordance with the foregoing rate.

Schedule B-2 Commercial and Small Power Service\*

Availability

Available to commercial consumers, small industrial consumers, schools, churches, community halls and three phase farm consumers for all uses including lighting, appliances, cooking, heating, and motors all subject to the established rules and regulations of the Cooperative covering this service.

Service under this Schedule is limited to consumers whose load requirements do not exceed 37.5 KVA of transformer capacity.

Consumers having their homes on the same premises with their business establishments may include service to both on the same meter, in which case, all services will be billed under this schedule, using the rate set out below. If the consumer prefers he may make provisions for two meters, in which case, his usage for residential purpose will be billed under the appropriate residential schedule, and his usage for business will be billed under this schedule and rate.

\*The monthly kilowatt hour usage shall be subject to plus or minus an adjustment per KWH determined in accordance with the "Fuel Adjustment Clause."

Schedule B-2 Commercial and Small Power Service (Cont'd)\*

Type of Service

Single-phase, and three-phase at available secondary voltage.

Rate

First	40 KWH per month (minimum bill)	\$5.25 per month
Next	60 KWH per month	.0875 per KWH
Next	200 KWH per month	.0642 per KWH
Next	700 KWH per month	.0470 per KWH
Over	1,000 KWH per month	.0390 per KWH

Minimum Charge

The minimum monthly charge under the above rate shall be \$5.25 where 37.5 KVA or less of transformer capacity is required. For consumers requiring more than 37.5 KVA of transformer capacity, the minimum monthly charge shall be increased at the rate of .75 for additional KVA or fraction thereof required. Where the minimum charge is increased in accordance with the terms of this section, additional energy shall be included in accordance with the foregoing rate.

Temporary Service

Temporary service shall be supplied in accordance with the foregoing rate except that there shall be an additional charge of \$3.90 for each kilowatt or fraction thereof of connected load for each month or fraction thereof that service is connected. Bills will not be pro-rated for a fractional part of a month.

Schedule LLP-1 Large Power Service (Over 37.5 - Under 500 KW)\*

Availability

Available to commercial, industrial consumers, schools, churches, community halls and three phase farm consumers subject to the established rules and regulations of the Cooperative covering this service.

Rate

\$3.90 per month per KW of billing demand plus energy charges of:

- 3.69¢ per KWH for the first 50 KWH used per month per KW of billing demand.
- 2.91¢ per KWH for the next 50 KWH used per month per KW of billing demand.
- 2.69¢ per KWH for all remaining KW used per month.

Schedule LLP-2 Large Power 500 KW under 3,000 KW (Secondary Voltage)\*

Demand Charge: \$3.90 per month per KWH of billing demand

Energy Charge:

First	20,000 KWH per month	\$.0391 per KWH
Next	20,000 KWH per month	.0263 per KWH
Over	40,000 KWH per month	.0220 per KWH

Determination of Billing Demand

The billing demand shall be the maximum average kilowatt load used by the consumer for any period of fifteen (15) consecutive minutes during the month for which the bill is rendered as indicated or recorded by a demand meter.

\*The monthly kilowatt hour usage shall be subject to plus or minus an adjustment per KWH determined in accordance with the "Fuel Adjustment Clause."

Schedule OL Outdoor Lighting Service\*

Rate per Fixture

Mercury 100 to 200 watts	\$ 4.70 per month
Mercury 200 to 450 watts	7.30 per month
Mercury 450 to 1200 watts	11.25 per month

Schedule OL-1 Street Lighting Service\*

Rate

First	40 KWH per month (minimum bill)	\$5.62 per month
Next	60 KWH per month	.0694 per KWH
Next	100 KWH per month	.0480 per KWH
Next	300 KWH per month	.0337 per KWH
Over	500 KWH per month	.0221 per KWH

Schedule LLP-3 Large Power 500 KW under 3,000 KW (Primary Voltage)\*

Rate

Demand Charge: \$3.90 per month per KWH of billing demand

Energy Charge:

First	20,000 KWH per month	\$.0423 per KWH
Next	20,000 KWH per month	.0286 per KWH
Over	40,000 KWH per month	.0243 per KWH

Schedule LPR-1 Large Power 3,000 and Over\*

Rate

Demand Charge: \$3.90 per month per KW of billing demand

Energy Charge:

First	100,000 KWH per month	\$.0364 per KWH
Next	900,000 KWH per month	.0215 per KWH
Over	1,000,000 KWH per month	.0167 per KWH

\*The monthly kilowatt hour usage shall be subject to plus or minus an adjustment per KWH determined in accordance with the "Fuel Adjustment Clause."