

COMMONWEALTH OF KENTUCKY  
BEFORE THE ENERGY REGULATORY COMMISSION

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In the Matter of

ADJUSTMENT OF RATES OF LICKING VALLEY )  
RURAL ELECTRIC COOPERATIVE CORPORATION )  
TO PROVIDE ADEQUATE REVENUES FOR ITS )  
OPERATIONS )

AND )

CASE NO. 7591

FURTHER ADJUSTMENT OF RATES TO FLOW )  
THROUGH PROPOSED INCREASED WHOLESALE )  
POWER CHARGES OF EAST KENTUCKY POWER )  
COOPERATIVE )

O R D E R

On September 27, 1979, Licking Valley Rural Electric Cooperative Corporation (Applicant) filed an Application with the Energy Regulatory Commission requesting an increase in the basic rates charged member-consumers for electric service. Following the Commission's Order No. 7399 dated October 1, 1979, which authorized the Applicant to pass-through to its consumers the increased costs of purchased power from its supplier, East Kentucky Power Cooperative, Inc., the Applicant filed an amended Application and revised proposed rates dated November 29, 1979, which reflected the increased rates granted in that Case. The Commission recognizes the impact of the pass-through on operations, and the rates and charges set out in Appendix "A" of this Order fully reflect the pass-through as approved in Case No. 7399.

The proposed increase in basic rates, irrespective of the increase granted in Case No. 7399, would produce an increase in annual revenues to the Applicant of \$385,029, or an increase in adjusted annual revenue of approximately 7.6%. Applicant stated that the increase was necessary to give Licking Valley sufficient income to carry on its operations in the provision of safe and reliable electric service and to meet the loan requirements of its principal lending agencies.

By Order dated November 30, 1979, the Commission set a public hearing on this matter for January 7, 1980 and directed the Applicant to publish its proposed rates and notice of such hearing as prescribed by Kentucky law and the rules of this Commission.

The hearing was held as scheduled, with one intervenor, the Office of the Attorney General's Division of Consumer Protection, being present. Following the Applicant's response to requests for information made at the hearing, which was filed January 14, 1980, the matter was submitted to the Commission for final determination.

Concurrent with the original Application, Licking Valley filed a Motion requesting approval to place the proposed rates into effect on an emergency basis. Applicant reaffirmed the necessity for an emergency increase in the hearing of January 7, 1980 and moreover provided evidence to justify that in the absence of immediate relief its operations and credit would be materially impaired.

The Commission has taken notice of this request and the Applicant's overall unsatisfactory cash position. Therefore, in lieu of granting rates on an emergency basis, the Commission has made special effort to determine the permanent financial needs of the Applicant within thirty days of the date the matter was submitted and thus is issuing a final Order in this Case.

Licking Valley Rural Electric Cooperative Corporation provides electric service to approximately 10,772 member-consumers in Morgan, Wolfe, Magoffin, and Breathitt Counties in Eastern Kentucky. Its sole supplier of electric energy is East Kentucky Power Cooperative, Inc.

#### TEST PERIOD

The Commission has accepted the Applicant's proposed test period, the twelve months ending June 30, 1979, for the purpose of determining the reasonableness of the proposed rates and charges.

#### VALUATION METHODS

##### Net Investment

The Commission has accepted the Applicant's proposed Net Investment Rate Base of \$8,435,136<sup>(1)</sup> with three exceptions. In

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<sup>(1)</sup>Applicant's page 9A.

accordance with past policy, the Commission has computed the Allowance for Cash Working Capital to be one-eighth of adjusted operation and maintenance expenses less the cost of purchased power. Therefore, as the Commission has not accepted all of the Applicant's proposed adjustments to operation and maintenance expenses, which is further explained in a subsequent section of this Order, the proposed working capital allowance has been reduced by \$3,949 to \$123,832<sup>(2)</sup> Moreover, the Commission has reduced Materials and Supplies by \$15,460<sup>(3)</sup> to \$270,638 to allow only the balance in materials and supplies related to utility operations. Finally, the Commission has reduced the proposed rate base by the balance in Customer Advances for Construction of \$96,290<sup>(4)</sup>

Therefore, the Commission finds from the record that the Applicant's Net Investment Rate Base at the end of the test period is as follows:

Utility Plant in Service	\$10,564,001
Construction Work in Progress	215,728
Total Utility Plant	<u>\$10,779,729</u>
Add:	
Materials & Supplies - Electric	\$ 255,178
Prepayments	82,113
Allowance for Cash Working Capital	123,832
Subtotal	<u>\$ 461,123</u>
Less:	
Accumulated Provision for Depreciation	\$ 2,825,125
Customer Advances for Construction	96,290
Subtotal	<u>\$ 2,921,415</u>
Net Investment Rate Base	<u><u>\$ 8,319,437</u></u>

### Capital Structure

The Commission has accepted the Applicant's proposed capital structure at June 30, 1979 as follows:

Memberships	\$ 128,290
Patronage Capital	3,469,104
Other Margins & Equities	11,301
Long-Term Debt	5,824,168
Subtotal	<u>\$ 9,432,863</u>
Less: Generating & Transmission Capital Credits	<u>\$ (365,219)</u>
Capital Structure	<u><u>\$ 9,067,644</u></u> <sup>(5)</sup>

(2)  $\$990,659 \times .125 = \$123,832.$

(3) Response to Staff Request No. 3, Filed 1/15/80.

(4) Testimony of witness, Joe Payne, CPA, Hearing date 1/7/80.

(5) Applicant's page 9A.

The Commission in accordance with the Applicant's proposal has eliminated the portion of Patronage Capital Certificates allocated from generating and transmission cooperatives as these are noncash assignments and are used exclusively for reinvestment in its power supplier, East Kentucky Power Cooperative, Inc.

No other methods of valuation were included in the evidence of record. However, the Commission has given due consideration to all elements of value in order to determine the reasonableness of the matter herein. The rates of return found reasonable on the above-mentioned valuation methods will provide Licking Valley with sufficient revenues to meet the mortgage requirements of its principal lending agents.

#### REVENUES AND EXPENSES

Licking Valley proposed several pro forma adjustments to their Operating Statement to more clearly reflect current operating conditions.<sup>(6)</sup> The Commission has accepted these adjustments for rate-making purposes with the following exceptions:

(1) Applicant originally proposed to adjust wage expenses by \$46,183 to reflect increases incurred during the test period. Subsequently in response to a staff request, which questioned the logic involved in calculating the adjustment, the Applicant reduced this adjustment by \$31,587<sup>(7)</sup> making the adjustment to wages \$14,596, which the Commission finds is reasonable.

(2) Moreover, as the proposed adjustment to Payroll Taxes of \$3,385 was related to the original calculation of the wage increase, the Applicant reduced this adjustment by \$2,315<sup>(8)</sup> making the adjustment \$1,070, the amount applicable to the wage adjustment found reasonable above.

(3) Applicant further proposed to adjust property taxes by \$5,917. This estimated adjustment is based on property balances at December 31, 1978 and as such, normalized the property tax

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<sup>(6)</sup> Applicant's page 4 (1 of 2) and page 4A.

<sup>(7)</sup> Response to Staff Request No. 2, Filed January 7, 1980.

<sup>(8)</sup> Response to Staff Request No. 2, Filed January 7, 1980.

expenses at a figure of \$60,582.<sup>(9)</sup> As the property taxes expensed during the test period of \$65,000<sup>(10)</sup> were greater than the estimated figure, the Commission finds that no adjustment is necessary.

Therefore, Applicant's test-period operations are adjusted as follows:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$4,593,213	\$463,511	\$5,056,724
Operating Expenses	4,356,237	487,070	4,843,307
Net Operating Margins	\$ 236,976	\$(23,559)	\$ 213,417
Other Income (Deductions) Net	\$ (189,469)	\$(36,689)	\$ (226,158)
Net Margins	<u>\$ 47,507<sup>(10)</sup></u>	<u>\$(60,248)</u>	<u>\$ ( 12,741)</u>

#### RATE OF RETURN

The Commission is of the opinion that the adjusted rate of return on Applicant's Net Investment Rate Base of 2.57%<sup>(11)</sup> is clearly deficient and unreasonable.

The Commission is of the opinion that a fair, just, and reasonable rate of return is 6.86% in that it will allow Licking Valley Rural Electric Cooperative Corporation to pay its operating expenses and service its debt. To achieve these earnings, Applicant is entitled to increase its electric rates to generate additional annual revenues of \$357,707.<sup>(12)</sup>

#### RATE DESIGN

Licking Valley proposed to change its rate structure from a minimum bill declining block structure to a customer charge with a flat energy usage rate. 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:

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- (9) Response to Staff Request No. 2, filed January 7, 1980.  
 (10) Applicant's Page 3A.  
 (11)  $\$213,417 \div \$8,319,437 = 2.57\%$   
 (12)  $\$8,319,437 \times 6.86\% = \$571,124 - \$213,417 = \$357,707.$

(1) That a fair, just, and reasonable rate of return is 6.86% and that to achieve these earnings Applicant is entitled to increase its electric rates and charges to generate additional annual revenues of \$357,707.

(2) 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 \$5,414,431 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.

(3) That the rates proposed by the Applicant in this Case are unfair, unjust, and unreasonable in that they produce gross annual revenues in excess of \$5,414,431 and should be denied.

IT IS THEREFORE ORDERED, that the rates sought by Licking Valley 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 Licking Valley Rural Electric Cooperative Corporation on and after the date of this Order.

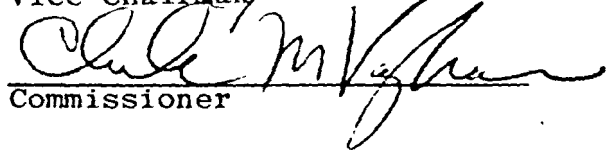
IT IS FURTHER ORDERED, that the Applicant shall file with this Commission within thirty (30) days from the date of this Order its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this the 19th day of February, 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. 7591 DATED FEBRUARY 19, 1980.

The following rates and charges are prescribed for the customers in the area served by Licking Valley Rural Electric Cooperative Corporation. 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 date of this Order.

RATES: Monthly

Schedule A, E and B-2\*

Customer Charge	\$ 4.25
All KWH	.0369

Schedule B, 50 KW or less\*

Customer Charge	\$10.00
All KWH	.0438

A demand charge of \$2.95 per KW in excess of 10 KW of billing demand.

Schedule B-1\*

Customer Charge	\$10.00
All KWH	.0341

A demand charge of \$2.95 per KW in excess of 10 KW of billing demand.

Schedule LP - Large Power Service\*

Customer Charge	\$40.00
All KWH	.0323

A demand charge of \$2.95 per KW.

Schedule LPR - Large Power Rate\*

Customer Charge	\$80.00
All KWH	.0256

A demand charge of \$2.95 per KW.

Schedule SL - Security Lights\*

175 Watt Mercury Vapor (70 KWH per lamp)	\$ 4.93
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\*The monthly kilowatt hour usage shall be subject to plus or minus an adjustment per KWH determined in accordance with the "Fuel Adjustment Clause."