

COMMONWEALTH OF KENTUCKY

BEFORE THE ENERGY REGULATORY COMMISSION

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In the Matter of

ADJUSTMENT OF RATES OF THE)
FLEMING-MASON RURAL ELECTRIC)
COOPERATIVE CORPORATION,) CASE NO. 7592
FLEMINGSBURG, KENTUCKY)

O R D E R

On September 27, 1979, Fleming-Mason Rural Electric Cooperative Corporation (Applicant) filed an Application with the Commission proposing to increase its annual revenues by \$920,438, an increase of approximately 13%. Applicant 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 December 4, 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 conclusion of the hearing and following response to all requests for additional information, the matter was submitted to the Commission for final determination.

Fleming-Mason provides electric service to approximately 13,000 consumers in Bath, Bracken, Fleming, Lewis, Mason, Nicholas, Robertson and Rowan Counties, Kentucky. Applicant's sole supplier of electric energy is East Kentucky Power Cooperative, Inc.

TEST PERIOD

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

VALUATION METHODS

Net Investment

The Commission finds from the record that Fleming-Mason's Net Investment devoted to its utility operations at the end of the test period is as follows:

Utility Plant in Service	\$12,732,423
Construction Work in Progress	364,563
Materials and Supplies-Electric	105,249
Prepayments	44,919
Cash Working Capital	153,914 ¹
Subtotal	<u>\$13,401,068</u>
Less:	
Accumulated Depreciation	\$ 4,122,943
Customer Advances	16,683
Subtotal	<u>\$ 4,139,626</u>
Net Investment	<u>\$ 9,261,442</u>

Capital Structure

The Commission finds, from the evidence of record, Applicant's Capital Structure at the end of the test-year to be \$10,233,158, consisting of \$6,637,366 of debt and \$3,595,792 of equity. Non-cash patronage capital credits in the amount of \$462,945 have been excluded from the equity portion in conformity with past Commission policy.

Fleming-Mason also introduced an Equity Management Plan, a mathematical process which determines the rate of return on equity necessary to attain a projected debt-equity ratio at a specified future date using historical capital growth patterns. The projected equity ratio is pre-determined by the Cooperative's management as the optimum capital structure to achieve and maintain.

Although the Commission has considered this Plan and others for possible future implementation, it will not be used in this matter to determine fair, just and reasonable rates.

The Commission has given due consideration to other elements of value not reflected in the evidence of record. The rates of return found reasonable herein will provide Applicant with sufficient revenues to meet the mortgage requirements of its principle lending agents.

(1)

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

REVENUES AND EXPENSES

Fleming-Mason proposed several pro-forma adjustments to its income statement. We find these adjustments to be known and measurable and accept them for rate-making purposes with the following exceptions. We have reduced Applicant's proposed adjustments to normalize revenue and purchased power expense by \$190,608 and \$172,867 respectively based on the rates granted Applicant in Case No. 7410. This Case (7410) authorized Fleming-Mason to pass thru to its consumers the increased costs of purchased power from its supplier. We have rejected entirely Applicant's proposed adjustment for additional right-of-way clearing expenses based on the evidence of record. Further, we have reduced the proposed adjustments to Transportation Depreciation by \$63 and to Distribution and General Depreciation by \$3,234 after applying depreciation rates recommended by the Rural Electrification Administration. Recognizing only the debt outstanding as of the hearing date, we have also reduced Applicant's Interest Expense adjustment by \$101,255.

After including the accepted adjustments, Fleming-Mason's test period operations are adjusted as follows:

	<u>Actual</u>	<u>Pro-Forma Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$6,260,713	\$ 715,256	\$6,975,969
Operating Expenses	5,990,685	819,470	6,810,155
Net Operating Income	\$ 270,028	\$(104,214)	\$ 165,814
Other Income (Deductions)			
Net	(175,814)	(72,421)	(248,235)
Net Income (Loss)	<u>\$ 94,214</u>	<u>\$(176,635)</u>	<u>\$ (82,421)</u>

RATE OF RETURN

The Commission is of the opinion that the adjusted rate of return of 1.8% is clearly deficit and is unfair, unjust, and unreasonable.²

We are of the opinion that a fair, just, and reasonable rate of return is 7.0%. To achieve these earnings, Fleming-Mason is entitled to increase its electric rates to generate additional annual revenues of \$486,192 based on test-period conditions.⁽³⁾ This will result in a Times Interest Earned Ratio of 2.25.

⁽²⁾
$$\frac{\$165,814}{\$9,261,442}$$

⁽³⁾
$$\$9,261,442 \times .0704 = \$652,006 - \$165,814 = \$486,192$$

The rates and charges set out in attached Appendix "A" are designed to produce annual revenues of approximately \$7,462,160 including the additional revenues granted herein.

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 7.0% and that to achieve these earnings Fleming-Mason is entitled to generate additional annual revenues of \$486,192.

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 \$7,462,160 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 Fleming-Mason in this Case are unfair, unjust, and unreasonable in that they produce gross annual revenues in excess of \$7,462,160 and should be denied.

IT IS THEREFORE ORDERED, that the rates sought by Fleming-Mason 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 Fleming-Mason 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 18th day of April, 1980.

ENERGY REGULATORY COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE ENERGY REGULATORY
COMMISSION IN CASE NO. 7592 DATED APRIL 18, 1980.

The following rates and charges are prescribed for the customers in the area served by Fleming-Mason 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.

Rates: Monthly

Residential and Small Power - Schedule RSP*

Customer Charge	\$ 4.70	per meter
Energy Charge (for all KWH)	.03708	per KWH

Minimum Charge:

The monthly customer charge. For temporary or seasonal service a minimum charge of \$57.45 is required, payable at the time of request for service.

Small General Service - Schedule SGS*

Customer Charge	\$35.45	per meter
Demand Charge per Billing KW	4.75	per KW
Energy Charge (for all KWH)	.01785	per KWH

Minimum Charge:

The monthly customer charge. For temporary or seasonal service a minimum charge of \$430.50 per annum is required in lieu of the monthly customer charge, payable at the time of request of service.

Large General Service - Schedule LGS*

Customer Charge	\$47.25	per meter
Demand Charge per Billing KW	4.31	per KW
Energy Charge (for all KWH)	.01802	per KWH

Minimum Charge:

The monthly customer charge. For temporary or seasonal service a minimum charge of \$574.04 per annum is required in lieu of the monthly customer charge, payable at the time of request for service.

Outdoor Lighting Service - Schedule OLS*

175 Watt Mercury Vapor (approximately 7,000 lumens) \$4.50 per unit

Minimum Charge:

First year, or any portion, thereof, \$54.00 per unit payable in advance. Thereafter, \$4.50 per month per unit.

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

Additional Charges:

(a) For non-governmental members:

The above charge and term applies to lights mounted on existing cooperative poles with 120 volts available, or on cooperative poles, to be set, within 150 feet of an existing 120 volt source. If additional secondary service poles, or conductor, is required the term of the agreement shall be extended in proportion to the number of additional poles needed in excess of one, at the rate of \$54.00 per year for each additional pole, all paid in advance at the time of commencement of service. In the event a transformer must be installed, the member will be required to pay the installation cost of the transformer. Where extensions of primary lines are required the total cost of such construction shall be paid by the member.

All Electric School - Schedule AES*

Customer Charge	\$ 47.25	per meter
Energy Charge (for all KWH)	.03351	per KWH

Minimum Charge:

The minimum annual charge will not be less than \$17.41 per KVA of required transformer capacity as determined by the Cooperative.

Special Contracted Service:

Texas Eastern Transmission Corporation*

Customer Charge	\$ 94.35	per meter
Demand Charge per Billing KW	6.50	per KW
Energy Charge (for all KWH)	.01738	per KWH

Dravo Lime Company*

Customer Charge	\$277.50	per meter
Demand Charge per Billing KW	3.85	per KW
Energy Charge (for all KWH)	.01701	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."