

COMMONWEALTH OF KENTUCKY
BEFORE THE ENERGY REGULATORY COMMISSION

* * * * *

In the Matter of

THE APPLICATION OF GRAYSON RURAL)
ELECTRIC COOPERATIVE CORPORATION)
FOR AN ORDER AUTHORIZING SAID) CASE NO. 7605
CORPORATION TO CHANGE ITS BASIC RATE)
STRUCTURE AND INCREASE RATES TO ITS)
MEMBERS)

O R D E R

On October 19, 1979, Grayson Rural Electric Cooperative Corporation (hereinafter Applicant or Grayson) filed an application with this Commission requesting authority to increase its revenue by approximately \$462,200 on an annual basis, an increase of approximately 11.8%. Applicant stated in the application that the additional revenue was essential to its financial integrity; and its credit and operations will be materially impaired or damaged if the Commission does not approve its rates.

The Commission scheduled the matter for hearing on January 7, 1980 and ordered Applicant to give notice of the date and hour of the hearing and the proposed rates.

On October 23, 1979, the Consumer Protection Division in the Department of Law pursuant to KRS 367.150 filed a Motion to intervene in this proceeding which was sustained. The Attorney General moved to dismiss the rate case at the hearing held January 7, 1980 claiming the requirements of 807 KAR 50:005 Section 6(9) had not been met by Grayson. The cooperative responded on January 10, 1980 stating that the detailed income statement and balance sheet for the May 1, 1978 - April 30, 1979 test year and this financial data updated through August 1979, which was within 90 days of the October 19, 1979 rate case filing, had been submitted. Therefore, requirements of 807 KAR 50:005 Section 6(9) had been met.

COMMENTARY

Grayson Rural Electric Cooperative Corporation is a consumer-owned electric distribution cooperative which serves approximately 9,735 consumer members in the Kentucky counties of Carter, Elliott, Greenup, Lawrence, Lewis, and Rowan. Applicant purchases all of its power from East Kentucky Power Cooperative, Inc.

TEST YEAR

Grayson proposed and the Commission has adopted the twelve-month period ending April 30, 1979 as the test period for determining the reasonableness of the proposed rates and charges. In utilizing the historic test period the Commission has given full consideration to known and measurable changes where appropriate.

VALUATION

The Commission finds from the evidence that Applicant's Net Investment at April 30, 1979 is as follows:

Utility Plant in Service	\$9,676,134
Construction Work in Progress	73,762
Total Utility Plant	<u>\$9,749,896</u>
Add:	
Materials and Supplies	\$ 114,342
Prepayments	45,241
Working Capital	118,487
Sub-total	<u>\$ 278,070</u>
Deduct:	
Depreciation Reserve	\$2,149,186
Customer Advances for Construction	12,984
Sub-total	<u>\$2,162,170</u>
Net Investment	<u><u>\$7,865,796</u></u>

In calculating the Net Investment, the Commission has adjusted Materials and Supplies and prepayments to utilize the thirteen-month average. The Commission has further adjusted Applicant's Rate Base to reflect the pro forma depreciation expense adjustment in the calculation of the Accumulated Provision for Depreciation. Likewise, the working capital has been adjusted to reflect the pro forma operation and maintenance expenses rather than the 12-month actual. The Commission is of the opinion that this method provides greater recognition of the changing conditions in which a utility operates.

The Commission has determined that Applicant's Capital

Structure at the end of the test period was \$8,635,610, and consisted of \$2,594,525 equity and \$6,041,085 in long-term debt.

The Commission has given due consideration to these and other elements of value in determining the reasonableness of the rate increase proposed herein.

REVENUES AND EXPENSES

Applicant proposed several pro forma adjustments to revenues and expenses as reflected on the adjusted Income Statement. These adjustments were proposed to normalize increases in revenue, power costs, salaries and wages, insurance, depreciation, and interest on long-term debt. Subsequent to the public hearing Applicant proposed an additional adjustment to normalized revenue to reflect the effect of the fuel adjustment credit on the test-year revenue. The Commission after due consideration has accepted all of the pro forma adjustments as determined by Applicant.

The effect on Net Income of the pro forma adjustments is as follows:

	<u>Actual Test Period</u>	<u>Pro forma Adjustments</u>	<u>Adjusted</u>
Operating Revenue	\$3,676,059	\$ 270,367	\$3,946,426
Operating Expenses	3,424,430	359,934	3,784,364
Net Operating Income	<u>\$ 251,629</u>	<u>\$ (89,567)</u>	<u>\$ 162,062</u>
Other Income & Deductions (Net)	(172,050)	(46,244)	(218,294)
Net Income	<u><u>\$ 79,579</u></u>	<u><u>\$(135,811)</u></u>	<u><u>\$ (56,232)</u></u>

RATE OF RETURN

The actual rate of return on Applicant's Net Original Cost established herein for the test year was 3.20%. After taking into consideration the pro forma adjustments, Applicant would realize a 2.06% rate of return. The Commission is of the opinion and finds that the adjusted rate of return is inadequate and would impair Applicant's financial integrity. In order to remain on a sound financial basis, Applicant should be allowed to increase its annual revenue by approximately \$366,400 which would result in a rate of return of 6.72%. This additional revenue will provide Net Income of approximately \$310,200 which will be sufficient to meet the requirements in Applicant's mortgages securing its long-term debt.

RATE DESIGN

Grayson 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 consideration of the evidence of record and being fully advised, is of the opinion and so finds that the rates and charges set out in Appendix "A" attached hereto and made a part hereof will produce gross annual revenue in the amount of approximately \$4,267,406 and are the fair, just, and reasonable rates for Applicant.

The Commission further finds that the rates and charges proposed by the Applicant are unfair, unjust, and unreasonable in that they produce revenue in excess of that deemed reasonable herein. The Commission further finds that the financial data required to be filed by the cooperative under 807 KAR 50:005 Section 6(9) has been submitted, and the cooperative has complied with the above regulation.

IT IS THEREFORE ORDERED, that the Motion to Dismiss made by the Attorney General is denied.

IT IS FURTHER ORDERED, that the rates set out in Appendix "A" attached hereto and made a part hereof are approved for service rendered on and after April 1, 1980.

IT IS FURTHER ORDERED, that Grayson Rural Electric Cooperative Corporation 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. 7605 DATED APRIL 18, 1980.

The following rates and charges are hereby prescribed for the customers served by Grayson Rural Electric Cooperative Corporation to become effective for service rendered on and after the date of this Order. All other rates and charges not mentioned specifically herein shall remain the same as those in effect prior to the date of this Order.

Rates: Monthly

Schedule 1

DOMESTIC-FARM & HOME SERVICE, PUBLIC BUILDINGS, SCHOOLS, CHURCHES,
ETC., COMMERCIAL & SMALL POWER - 0 to 49 KVA

Customer Charge Per Month \$ 6.50
Energy Charge .0374 per KWH

Minimum Charge

The minimum monthly charge under the above rate shall be \$6.50 where 25 KVA or less of transformer capacity is required. For members requiring more than 25 KVA of transformer capacity the minimum monthly charge shall be increased at the rate of 75¢ for each additional KVA or fraction thereof required. Where it is necessary to extend or reinforce existing distribution facilities, the minimum monthly charge may be increased to assure adequate compensation for the added facilities. Where the minimum charge is increased in accordance with the terms of this section, additional energy and demand shall be included in accordance with the foregoing rate schedule.

Schedule 4

LARGE POWER SERVICE - 50 to 600 KW

Demand Charge

\$3.80 per month per KW of billing demand

Customer Charge Per Month \$50.00
Energy Charge .0296 per KWH

Schedule 5

STREET LIGHTING SERVICE

<u>Lamp Size</u>	<u>Mercury Vapor Lamps</u>	<u>Annual Charge Per Lamp</u>
175 Watt	\$4.85 per month	\$58.20

Schedule 6

OUTDOOR LIGHTING SERVICE - SECURITY LIGHTS

RATE PER LIGHT PER MONTH

175 Watt Mercury Vapor Lamp	\$ 4.85
250 Watt Mercury Vapor Lamp	\$ 6.43

Schedule 7

ALL ELECTRIC SCHOOLS (A.E.S.)

All in KWH \$.0429 per KWH

Schedule 8

SEASONAL SERVICES - SERVICES ACTIVE LESS THAN NINE (9) MONTHS OUT OF A YEAR

Customer Charge Per Month \$ 8.00
Energy Charge .0510 per KWH

Minimum Charge

The minimum monthly charge under the above rate shall be \$8.00 where 25 KVA or less of transformer capacity is required. For members requiring more than 25 KVA of transformer capacity the minimum monthly charge shall be increased at the rate of 75¢ for each additional KVA or fraction thereof required.