

COMMONWEALTH OF KENTUCKY

BEFORE THE ENERGY REGULATORY COMMISSION

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In the Matter of

THE APPLICATION OF TAYLOR COUNTY)
RURAL ELECTRIC COOPERATIVE CORPORA-) CASE NO. 7694
TION FOR AN ADJUSTMENT OF RATES)

THE APPLICATION OF TAYLOR COUNTY)
RURAL ELECTRIC COOPERATIVE CORPORA-)
TION FOR AN ORDER AUTHORIZING A PASS-) CASE NO. 7729
THROUGH OF EAST KENTUCKY POWER)
COOPERATIVE, INC'S WHOLESALE POWER)
RATE INCREASE IN CASE NO. 7702)

O R D E R

On January 4, 1980, Taylor County Rural Electric Cooperative Corporation (Applicant) filed a Notice with the Commission requesting to increase its electric rates and charges to its member consumers on and after February 25, 1980. The proposed increase in rates and charges would produce an increase in revenues to the Applicant of \$1,127,185, an increase of 18.8% above test year revenues. Applicant stated that the increase was necessary to maintain the financial stability of the Cooperative.

By Orders dated January 21, and February 22, the Commission suspended the proposed increase for a period of five (5) months on and after the effective date, and set a public hearing on this matter to be held February 22, 1980. It was further ordered that the Applicant publish its proposed rates and notice of such hearing as prescribed by Kentucky law and the rules and regulations of this Commission.

The Applicant complied with the notice requirements as directed and the hearing was held as scheduled with one intervenor, the Office of the Attorney General's Division of Consumer Intervention, being present. At the close of the hearing and following responses to information requests made in the hearing, the matter was submitted to the Commission for final determination.

Taylor County Rural Electric Cooperative Corporation provides electric service to approximately 14,803 member-consumers in Taylor, Green, Adair and Casey Counties in South-Central 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 October 31, 1980, for the purpose of determining the reasonableness of the proposed rates and charges.

VALUATION METHODS

Net Investment

From the record, the Commission has determined the Applicant's Net Investment rate base at October 31, 1980 to be as follows:¹

Utility Plant in Service	\$ 10,954,783
Construction Work in Progress	5,933
Less: Accumulated Depreciation	<u>3,683,872</u>
Net Utility Plant	\$ 7,276,844
Materials and Supplies - Electric	\$ 173,041
Prepayments	77,433 ²
Working Capital	<u>139,522</u>
Sub-Total	\$ 389,996
Total Investment	\$ 7,666,840
Less: Customer Advances	\$ 120,951
NET INVESTMENT	\$ <u><u>7,545,889</u></u>

Capital Structure

From the record, the Commission has determined the Applicant's Capital Structure at October 31, 1980, to be:³

Memberships	\$ 162,640
Patronage Capital	<u>5,936,794</u>
Total Equity	\$ 6,099,434
Total Long Term Debt	\$ 1,431,782
Sub-Total	<u>\$ 7,531,216</u>
Less: G & T Capital Credits	\$ <u>618,322</u>
Capital Structure	\$ <u><u>6,912,840</u></u>

The Commission in accordance with past policy has eliminated the portion of Patronage Capital Certificates allocated from generating and transmission cooperative since these are non-cash assignments and are used exclusively for reinvestment in its power supplier, East Kentucky Power Cooperative, Inc.

¹ Applicant's Exhibit A.

² 1/8 (\$1,116,175) = \$139,522.

³ Applicant's Exhibit A.

Although no other methods of valuation are set out herein, the Commission has given due consideration to all elements of value in order to determine the reasonableness of the matter. The rates of return found reasonable on the above-mentioned valuation methods will provide Taylor County with sufficient revenues to meet the mortgage requirements of its principal lending agents.

REVENUES & EXPENSES

Taylor County proposed several pro forma adjustments to their Operating Statement to more clearly reflect current operating conditions.⁴ The Commission has accepted these adjustments for rate-making purposes with the following exceptions:

Employee Pensions & Benefits:

The Commission has recognized the increased level of expenditures in wages and the related payroll taxes and employee pensions and benefits. However, the Commission finds that the Applicant's policies concerning the expensing of employee pensions and benefits is unacceptable for rate-making purposes. The Applicant as a matter of policy has expensed 97% and 100% of the expenditures for pensions and employee benefits, respectively. The Commission's opinion is that these costs are wage related and should be expensed and capitalized in approximately the same proportions as wages. Therefore, the Commission has made adjustments to reduce the adjusted employee pensions and benefits expenses to 71.55%⁵ of the normalized test year expenditures for these items, thus making the total adjustment \$7,221.⁶

Interest Expense:

Taylor County proposed two adjustments to their test year interest expenses. The first adjustment was made to reflect the increased interest expense associated with the proceeds of a loan the Applicant received in December, 1979. The Commission concurs with this adjustment, however, upon consideration it became apparent that the Applicant had miscalculated the annual interest expense associated with this loan and, therefore, the Commission has increased the Applicant's proposed adjustment by \$5,275 to \$31,650.⁷

⁴ Applicant's Exhibit D.

⁵ \$82,057.84 + \$114,686.95 = 71.55%

⁶ Normalized Expenditures X 71.55% - Actual Expense = Adjustment;
\$95,216 X 71.55% - \$75,348 = \$7,221

Secondly, the Applicant proposed an adjustment of \$32,990⁸ to reflect the adjusted short term interest expense at the end of period level. The Commission rejects this adjustment entirely and, moreover, has made an additional adjustment of \$42,154⁹ to eliminate short term interest expense from the Operating Statement of the Company. In cross examination of the Applicant's witness, Mr. Patterson, he admitted that if the rates had been adequate the Company would not have had to borrow short term debt.¹⁰ Therefore, as the rates granted herein will be sufficient to pay operating expenses and service the Company's debt, the necessity for short term borrowing will be precluded and hence the Commission has reflected this principal in the elimination of the short term interest expense adjustments.

Rate Case Expenses

In accordance with past policy, the Commission has made an adjustment to the Applicant's Operating Statement to amortize the expenses associated with the preparation of this case over a two year period. This adjustment increases the Applicant's adjusted operating income by \$13,122.¹¹ Moreover, the Commission has made an additional adjustment to reduce operating income by \$3,038¹² to reflect one year's amortization of the expenses associated with the preparation of this case which were incurred subsequent to the end of the test year.

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

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$ 5,432,832	\$ 611,936	\$ 6,044,768
Operating Expenses	5,372,983	694,408	6,067,391
Net Operating Margins	\$ 59,849	\$ (82,472)	\$ (22,623)
Other Income(Deductions) Net	(52,426) ¹³	11,349	(41,077)
Net Margins	<u>\$ 7,423</u>	<u>\$ 71,123</u>	<u>\$ (63,700)</u>

⁸ Applicant's Exhibit D, page 24 of 25.

⁹ Applicant's Exhibit B, page 1 of 1.

¹⁰ T.E., February 22, 1980, page 110.

¹¹ Company Response to Staff Request, Filed March 17, 1980:
 $\$26,244.32 \div 2 = \$13,122$

¹² IBID: $\$6,075.74 + 2 = \$3,038$.

¹³ Applicant's Exhibit B.

CONTRIBUTIONS

Contributions and donations have long been considered an inappropriate expense for utility ratepayers to bear. This Commission and its predecessor, the Public Service Commission, have consistently followed a policy of disallowing contributions as an operating expense of a utility for rate case purposes. In a privately owned utility, the expenses disallowed for ratemaking purposes are absorbed by the stockholders which is reflected in the stockholder's return. This principal, however, cannot hold true for a cooperative corporation as the ratepayer is also the owner of the utility and therefore must ultimately bear all the costs regardless of their nature.

Although contributions do not generally represent a great deal of money either in total or to the individual ratepayer, it is still the Commission's opinion that the decision to contribute or not to contribute to particular charitable institutions should be an individual's own choice. Therefore, it is the Commission's opinion that the individual member-consumers of Taylor County Rural Electric Cooperatives should be given the opportunity to decide on the merits of any contributions made in the name of the cooperative. As it is not feasible to poll each member-consumer on an individual basis, the Commission feels that this matter should be decided on a collective basis at Taylor County's annual meetings, as these meetings represent the largest one gathering of members at any one time. The issue of contributions should be put to vote on the specific bases of total annual contributions, the particular organizations to whom contributions shall be made and the amount to be donated to each individual organization selected. Moreover, the Commission feels that consumers should be given notice that this issue will be on the agenda prior to the annual meeting and, therefore Taylor County should advise its members of this in all general advertisements notifying the members of the meeting itself.

RATE OF RETURN

The Commission is of the opinion that the adjusted operating deficit is clearly unreasonable.

The Commission is of the opinion that a fair, just and reasonable rate of return is 4.35% in that it will allow Taylor County 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 \$ 350,537.¹⁴

RATE DESIGN

Taylor County proposed to change its rate structure by consolidating certain consumer rate classifications. Moreover, Taylor County proposed to change its rate design within the classifications to reflect a flat energy usage charge with a customer charge and where applicable a demand charge. 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 of the evidence of record, and being fully advised, is of the opinion and so FINDS:

(1) That a fair, just and reasonable rate of return is 4.35% and that to achieve these earnings Applicant is entitled to increase its electric rates to generate additional annual revenues of \$ 350,537.

(2) That concurrent with this Order, Taylor County will experience an increase in wholesale power costs of \$407,846 from its supplier East Kentucky Power Cooperative Corporation as granted in Case No. 7702.

(3) That Taylor County made Application in Case No. 7729 to flow through the effects of such increase from its wholesale supplier.

(4) That such increase is necessary in order to enable Taylor County to earn the rate of return found reasonable above.

(5) That Case No. 7729 is hereby incorporated in this Order and that the rates and charges in Appendix "A" fully reflect the effects of said flow-through.

¹⁴ $\$7,545,889 \times 4.35\% = \$327.914 + (\$ 22,623) = \$ 350,537$

(6) 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 \$6,803,151 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, service its debt, and provide a reasonable surplus for equity growth.

(7) That the rates proposed by the Applicant in Case No's 7694 & 7729 are unfair, unjust, and unreasonable in that they produce gross annual revenues in excess of \$6,803,151 and should be denied.

(8) That Taylor County Rural Electric Cooperative Corporation's members should be given a vote on the issues concerning contributions and donations.

IT IS THEREFORE ORDERED, that the rates sought by Taylor County Rural Electric Cooperative Corporation in Case No's 7694 & 7729 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 Taylor County Rural Electric Cooperative Corporation on and after July 1, 1980.

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.

IT IS FURTHER ORDERED, that in the future the Applicant shall bring the issues related to contributions before its members for vote in its annual meetings and shall notify its members of this impending vote prior to the date of the meeting in all general advertisements of the meeting itself.

Done at Frankfort, Kentucky, this the 1st day of July, 1980.

ENERGY REGULATORY COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE ENERGY REGULATORY
COMMISSION IN CASE NO. 7694 and 7729 DATED
July 1, 1980.

The following rates and charges are prescribed for the customers in the area served by Taylor County 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*

Applicable to Residential Consumers

Customer Charge: \$4.05 per meter per month
All kilowatt hours per month 3.48¢ per KWH

Schedule GP-1 (Demands less than 25 KW)*

Applicable to small commercial, industrial, public buildings, churches and community centers, and three-phase farm service, including lighting, heating and power.

Demand Charge: None

Energy Charge:

Customer Charge: \$5.15 per meter per month
All kilowatt hours per month 4.19¢ per KWH

Schedule GP-2 (Demands greater than 25 KW)*

Applicable to small commercial, industrial, public buildings, churches and community centers, and three-phase farm service, including lighting, heating and power.

Demand Charge: \$2.60 per KW of billing demand

Energy Charge:

All kilowatt hours per month 2.36¢ per KWH

Schedule SL Security Lights*

175 Watt Mercury Vapor \$2.70 per Light
plus 70 KWH/Light/Month @ Consumers applicable Rate Schedule.
400 Watt Mercury Vapor \$4.30 per Light
plus 160 KWH/Light/Month @ Consumers applicable Rate Schedule.

*The monthly kilowatt hour usage shall be subject to plus or minus an adjustment...

Schedule SL Street Lighting*

<u>Incandescent</u>	<u>Charge/Fixture</u>				
75 Watts	\$ 2.16	plus	30 KWH/Light/Month	@	GP-1 Rate
150 Watts	2.70	plus	60 KWH/Light/Month	@	GP-1 Rate
200 Watts	2.70	plus	80 KWH/Light/Month	@	GP-1 Rate
300 Watts	3.25	plus	120 KWH/Light/Month	@	GP-1 Rate

<u>Mercury Vapor</u>	<u>Charge/Fixture</u>				
175 Watts	\$ 2.70	plus	70 KWH/Light/Month	@	GP-1 Rate
250 Watts	3.25	plus	100 KWH/Light/Month	@	GP-1 Rate
400 Watts	4.30	plus	160 KWH/Light/Month	@	GP-1 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."