

COMMONWEALTH OF KENTUCKY
BEFORE THE ENERGY REGULATORY COMMISSION

* * * * *

In the Matter of:

ADJUSTMENT OF RATES OF)
NOLIN RURAL ELECTRIC) CASE NO. 7951
COOPERATIVE CORPORATION)

O R D E R

On August 29, 1980, Nolin Rural Electric Cooperative Corporation (Applicant or Nolin) filed an application with this Commission requesting authority to increase its rates by approximately \$761,793 annually, an increase of 9.46% based on normalized test year revenue. Applicant stated that the proposed rates were necessary for sound fiscal operation of the cooperative.

On September 12, 1980, the Commission issued an order which scheduled the matter for a public hearing and investigation on the reasonableness of the proposed rates for December 2, 1980, at the Commission's offices in Frankfort, Kentucky. Nolin was further directed to provide statutory notice to its consumers of the proposed rate increase and the scheduled hearing.

On September 8, 1980, the Division of Consumer Intervention in the Department of Law pursuant to KRS 367.150(8) filed a motion to intervene as a party in these proceedings. Said motion was sustained at the hearing on December 2, 1980, and no other party formally intervened herein.

COMMENTARY

Nolin Rural Electric Cooperative Corporation is a consumer owned electric distribution cooperative serving approximately 14,181 member-consumers in the central Kentucky counties of Hardin, Larue, Green, Taylor, Meade, Breckinridge, Grayson and Hart. Applicant receives all of its power requirements from East Kentucky Power Cooperative, Inc. During the course of these proceedings, on September 29, 1980, Applicant's power

supplier filed an application to increase its wholesale power rates which required Nolin to file an additional application to flow through any increase granted East Kentucky. That matter will be considered by the Commission in Case No. 8007 along with the East Kentucky Application in Case No. 7981.

TEST YEAR

Nolin proposed, and the Commission has accepted, the twelve-month period ending May 31, 1980, as the test period herein. In utilizing the historic test period the Commission has given due consideration to known and measurable adjustments, where found reasonable.

VALUATION

Net Investment

On page 20 of the rate case information attached to the application, Nolin proposed a net investment rate base of \$11,060,550. The Commission concurs with this determination with one exception. At May 31, 1980, Applicant had Customer Advances for Construction of \$23,634. The Commission is of the opinion that these advances are the equivalent of contributions of capital to Applicant until the final disposition is made. Therefore, the net investment rate base should be reduced by this amount.

The net investment allowed herein for rate making purposes is as follows:

| | |
|------------------------------------|---------------------|
| Plant in Service | \$12,747,458 |
| Construction Work in Progress | 167,561 |
| Total Utility Plant | <u>\$12,915,019</u> |
| Add: | |
| Materials and Supplies | \$ 251,025 |
| Prepayments | 74,424 |
| Working Capital | 171,324 |
| Sub-Total | <u>\$ 496,773</u> |
| Deduct: | |
| Accumulated Depreciation | \$ 2,351,506 |
| Customer Advances for Construction | 23,634 |
| Sub-Total | <u>\$ 2,375,140</u> |
| Net Investment | <u>\$11,036,652</u> |

The Commission has adjusted working capital to include the allowed operating expenses.

Capital Structure

Nolin proposed an adjusted capital structure of \$12,956,175 which consisted of \$3,792,482 of equity and \$9,163,693 of long-term debt. The Commission has adjusted the proposed capital structure to exclude the projected equity based on the rate increase requested herein; and to exclude the accumulated equity of \$538,187 provided in the form of capital credits by East Kentucky.

Based on these adjustments, Applicant's capital structure would be \$11,994,735 and consist of 23.6% equity and 76.4% long-term debt.

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

REVENUE AND EXPENSES

On page 3 of the rate case exhibits attached to the application Nolin proposed six pro forma adjustments to reflect more current and anticipated operating conditions. After a thorough review of the proposed adjustments, the Commission finds that they are generally acceptable and will include all of the adjustments with these modifications:

(1) Nolin proposed an adjustment of \$434,434 to revenue to normalize the impact of a wholesale power cost flow-through rate increase effective July 1, 1980. In determining the adjusted revenue from sales, Nolin utilized a billing analysis for the test year which was inaccurate due to an improper allocation of kilowatt hour sales to the various usage blocks. As a result of the erroneous billing analysis, the normalized revenue was understated by approximately \$259,159. Therefore, the Commission will increase the pro forma revenue by an additional \$259,159.

(2) The Commission has adjusted operating expenses by \$2,111 and other income deductions by \$2,819 to exclude a portion of the dues, and all charitable contributions for the test year. The Commission is of the opinion that these costs are not

essential to the operation of an electric utility and should not be borne by the rate payers.

The effect on net income of the revised pro forma adjustments is as follows:

| | <u>Actual Test Year</u> | <u>Pro Forma Adjustments</u> | <u>Adjusted Test Year</u> |
|--|-----------------------------|----------------------------------|-------------------------------|
| Operating Revenue | \$7,416,266 | \$693,593 | \$8,109,859 |
| Operating Expenses | <u>6,761,334</u> | <u>737,427</u> | <u>7,498,761</u> |
| Net Operating Income | 654,932 | (43,834) | 611,098 |
| Interest on Long-Term Debt | 416,731 | 33,474 | 450,205 |
| Other Income and (deductions) - Net | 75,755 | 2,757 | 78,512 |
| Net Income | <u>\$ 313,956</u> | <u>\$(74,551)</u> | <u>\$ 239,405</u> |

RATE OF RETURN

The actual rate of return on Applicant's Net Investment, established herein for the test year, was 5.93%. After taking into consideration the pro forma adjustments, Applicant would realize a 5.54% rate of return. The Commission is of the opinion and finds that the revised 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 \$323,350, which would result in a rate of return of 8.47% and a Times Interest Earned Ratio of 2.25. This additional revenue will provide Net Income of approximately \$562,756, which should be sufficient to meet the requirements in Applicant's mortgages securing its long-term debt.

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 from sales in the amount of \$8,341,484 and are the fair, just and reasonable rates for Applicant. The revenue from sales when added to the other operating revenue will provide gross annual revenue of \$8,433,210.

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.

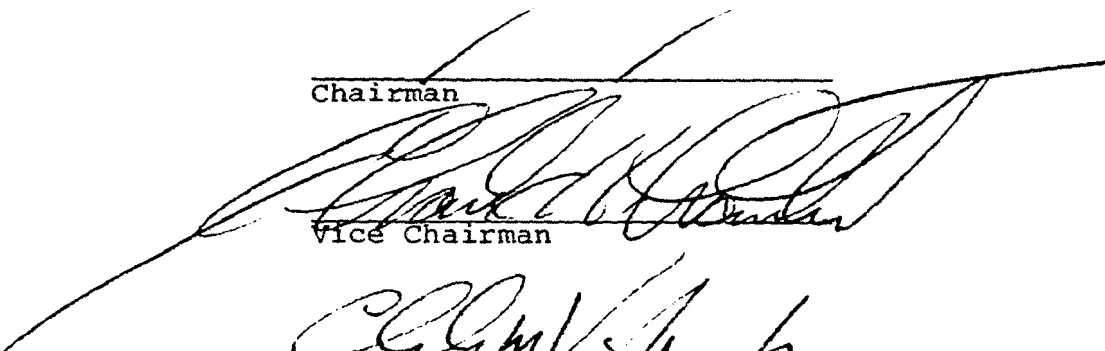
IT IS THEREFORE ORDERED, that the rates and charges set out in Appendix "A", attached hereto and made a part hereof, are approved for service rendered on and after March 1, 1981.

IT IS FURTHER ORDERED, that the rates and charges proposed by Nolin Rural Electric Cooperative Corporation are unfair, unjust, and unreasonable in that they produce revenue in excess of that deemed reasonable herein and are hereby denied.

IT IS FURTHER ORDERED, that Nolin 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 26th day of February, 1981.

ENERGY REGULATORY COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE KENTUCKY ENERGY
REGULATORY COMMISSION IN CASE NO. 7951
DATED FEBRUARY 26, 1981

The following rates and charges are prescribed for the customers in the area served by Nolin Rural Electric Cooperative Corporation, effective March 1, 1981. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the date of this Order.

SCHEDULE 1
RESIDENTIAL, FARM, NON-FARM, TRAILERS AND MOBILE HOMES*

Rates:

| | | |
|-------|--------------------------|-----------------------|
| First | 40 KWH Per Month or Less | \$5.95 (Minimum Bill) |
| Next | 60 KWH Per Month | .09284 Net Per KWH |
| Over | 100 KWH Per Month | .03585 Net Per KWH |

Minimum Charge:

The minimum monthly charge for single phase service shall be \$5.95.

SCHEDULE 2
COMMERCIAL, SMALL POWER, SINGLE PHASE AND THREE PHASE SERVICE*

Rates:

| | | |
|-------|--------------------------|-----------------------|
| First | 40 KWH Per Month or Less | \$5.95 (Minimum Bill) |
| Next | 60 KWH Per Month | .09284 Net Per KWH |
| Next | 2,900 KWH Per Month | .04905 Net Per KWH |
| Over | 3,000 KWH Per Month | .03793 Net Per KWH |

Minimum Charge:

The minimum monthly charge for single phase service shall be \$5.95.

SCHEDULE 3
LARGE POWER*

Rates:

Demand Charge

\$3.14 Per Kilowatt of Billing Demand Per Month

Energy Charge

| | | |
|-------|----------------------|-----------------------|
| First | 2,500 KWH Per Month | \$.03832 Net Per KWH |
| Next | 12,500 KWH Per Month | .03375 Net Per KWH |
| Over | 15,000 KWH Per Month | .03238 Net Per KWH |

SCHEDULE 4
INDUSTRIAL*

Rates:

Demand Charge

\$3.14 Per Kilowatt of Billing Demand Per Month

Energy Charge

| | | |
|-------|----------------------|-----------------------|
| First | 3,500 KWH Per Month | \$.04322 Net Per KWH |
| Next | 6,500 KWH Per Month | .03009 Net Per KWH |
| Over | 10,000 KWH Per Month | .02667 Net Per KWH |

SCHEDULE 5
RURAL LIGHT

Applicable: Entire Service Area*

Rates:

Service for the above unit shall be unmetered and billed on the consumers monthly bill for other electrical service furnished by the Cooperative, at the rate of \$5.57 each and every month for each lighting fixture contracted for by the consumer.

SCHEDULE 6

Rates:

| <u>Mercury Vapor Series or Multiple</u> | <u>KWH/Light</u> | |
|---|------------------|----------------------------|
| Standard Overhead | | |
| 7,000 Initial Lumens | 75 | \$2.55 Per Light Per Month |
| 20,000 Initial Lumens | 170 | 8.09 Per Light Per Month |
| Ornamental Service | | |
| 7,000 Initial Lumens | 75 | \$3.70 Per Light Per Month |
| 20,000 Initial Lumens | 170 | 9.49 Per Light Per Month |

*Fuel Adjustment Clause:

The above rate may be increased or decreased by an amount per KWH equal to the fuel adjustment amount per KWH as billed by the Wholesale Power Supplier plus an allowance for line losses. The allowance for line losses will not exceed 10% and is based on a twelve month moving average of such losses.