

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF FARMERS RURAL)
ELECTRIC COOPERATIVE CORPORATION)
FOR AN ORDER AUTHORIZING A PASS-)
THROUGH OF EAST KENTUCKY POWERS) CASE NO. 8000
WHOLESALE POWER RATE INCREASE IN)
CASE NO. 7981 AND A BASIC RATE)
INCREASE FOR FARMERS RURAL ELECTRIC)

O R D E R

On October 27, 1980, Farmers Rural Electric Cooperative Corporation (hereinafter Applicant or Farmers) filed an application with this Commission requesting authority to increase its revenue by approximately \$550,070 on an annual basis, an increase of 7.10%. Applicant stated that the increase was necessary to maintain the financial stability of the Cooperative.

Applicant requested that the proposed increase in basic rates be in addition to the increase granted its wholesale power supplier, East Kentucky Power Cooperative, Inc., in Case No. 7981. An Interim Order was issued on February 26, 1981, granting the Applicant an increase of \$1,393,822 to recover its portion of the wholesale power increase granted East Kentucky.

On October 31, 1980, the Consumer Intervention Division in the Department of Law filed a motion to intervene in this proceeding which was sustained. A hearing was scheduled for February 3, 1981, at the Commission's offices in Frankfort, Kentucky. All parties were notified and the hearing was conducted as scheduled. 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.

Commentary

Farmers Rural Electric Cooperative Corporation is a Kentucky Corporation, duly authorized to do business within the Commonwealth of Kentucky. Applicant provides electric service to approximately 13,937 member-consumers in Barren, Hart, Metcalfe, Adair, Green, Larue, Grayson, and Edmonson Counties in South Central Kentucky.

Test Year

Farmers proposed and the Commission has adopted the twelve month period ending July 31, 1980, as the test period for determining the reasonableness of the proposed rates and charges. In utilizing the historic test period the Commission has given due consideration to known and measurable changes where appropriate.

Valuation

Net Investment

The Commission has accepted the Applicant's proposed Net Investment with the exception of two items. The test year end balances in Prepayments and Materials and Supplies have been adjusted to reflect a thirteen (13) month average which the Commission finds is more representative of actual test period conditions. Also, the provision for working capital has been reduced to reflect the proforma adjustments to operation and maintenance expenses allowed herein for rate making purposes. After consideration of these adjustments Applicant's net investment rate base would appear as follows:

Utility Plant In Service	\$15,165,988
Construction Work In Progress	306,757
Total Utility Plant	<u>15,472,745</u>
Add:	
Materials and Supplies	\$ 179,077
Prepayments	59,617
Working Capital	159,594
Subtotal	<u>398,288</u>
Less:	
Accumulated Depreciation	3,559,337
Customer Advances	95,828
Subtotal	<u>\$ 3,655,165</u>
Net Investment	<u>\$12,215,868</u>

Capital Structure

The Commission finds from the evidence of record that Applicant's Capital Structure for rate-making purposes is as follows:

Equity	\$ 3,254,692
Long Term Debt	<u>9,942,235</u>
Total Capitalization	<u>\$13,196,927</u>

The Commission has adjusted Applicant's proposed equity to reflect only the test year end balance rather than include Applicant's proforma adjustment based on the proposed increase in revenues. Also, the Commission finds that current year's operating and nonoperating margins should be included in equity as they are properly considered capital items.

The Commission has given 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 its Exhibit 3. The adjustments were proposed to normalized increases in revenues, purchased power, salaries and wages, employee benefits, transportation costs, data

processing costs, utilities, depreciation, payroll taxes, mailing costs and interest on long-term debt. The Commission is of the opinion that the adjustments are generally acceptable for rate-making purposes with the following modifications:

1. Farmers proposed an adjustment of \$6,429 to reflect the additional costs of an anticipated postage rate increase. The Commission has allowed \$4,197 of this adjustment to reflect the additional annual cost based on the actual postage rate increase that went into effect on March 22, 1981.

2. Applicant proposed to adjust telephone expense by \$1,261. This adjustment was based on an increase in local service rates that occurred during the test year. In determining the increased cost Applicant applied the percentage increase in local service rates to the total test year telephone expense which included long distance service. Therefore, the Commission has adjusted this expense by \$290 to exclude the amount associated with other than local service.

3. Applicant proposed an adjustment of \$3,689 to normalize increases in electric expense that occurred during the test year and an increase that was anticipated to go into effect in April 1981. The Commission has reduced this adjustment by \$1571 to exclude the anticipated rate increase in that the estimated increase was not sufficiently known and measurable at this time.

4. Applicant proposed to adjust interest on long-term debt by \$85,827. This adjustment was based on an annualization of interest, based on long-term debt outstanding at the end of the test period as well as additional long-term debt that would be acquired through early 1981. The Commission will allow

\$77,752 of the proposed adjustment which includes the long-term debt actually outstanding as of February 28, 1981.

5. The Commission has adjusted Farmers' test year expenses to exclude charitable contributions of \$934. The Commission is of the opinion that this expense has little or no benefit to the consumers and should not be allowed for rate-making purposes.

6. The Commission has made an adjustment of \$530 to exclude a portion of Applicant's advertising expense actually incurred during the test period. The advertising expense disallowed for rate-making purposes herein has been classified as institutional advertising as defined in 807 KAR 5:016E.

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

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenue	\$6,854,489	\$2,084,719	\$8,939,208
Operating Expense	<u>6,278,576</u>	<u>2,056,516</u>	<u>8,335,092</u>
Operating Margin	575,913	28,203	\$ 604,116
Income Deductions	407,844	76,818	484,662
Other Income	79,751		79,751
Net Margins	<u>\$ 247,820</u>	<u>\$ (48,615)</u>	<u>\$ 199,205</u>

Revenues Requirements

The actual rate of return on Applicant's net investment, established herein for the test year, was 4.69%. After taking into consideration the pro forma adjustments, Applicant would realize a 4.95% 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 \$400,193 which would result in a rate of

return of 8.2% and a times interest earned ratio of 2.25. This additional revenue will provide net income of approximately \$599,398 which should be sufficient to meet the requirements in Applicant's mortgages securing its long term debt.

Revenues Allocation and Rate Design

The Applicant proposed allocating the revenue increase to each customer rate class in the same proportions that the customer rate class is presently contributing to total revenues. The Applicant proposed no changes to its current rate design. The Attorney General's office did not oppose the requested revenue allocation method or the current rate design. The Commission is of the opinion that the requested revenue allocation method is equitable. The Applicant requested 25% increase in existing demand charges, 18% for the wholesale power increase and 7% for the general rate increase. When the Applicant made this request, it could not have known that the Commission would find an energy adder charge to be the most equitable method of allocating the wholesale power cost increase in the Interim Order in this case. Considering this situation, the Commission is of the opinion that a demand charge increase of 18% is equitable in this instance. The rates set forth in Appendix "A" incorporate the Applicant's proposed revenue allocation method and reflect the recent fuel clause roll-in in Case No. 8065.

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, are the fair, just and reasonable rates for Applicant.

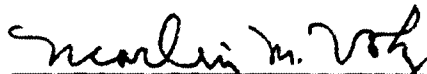
IT IS THEREFORE ORDERED that the rates and charges set out in Appendix "A", attached hereto and made a part hereof, are approved for service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that the rates and charges proposed by Farmers 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 Farmers 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 22nd day of April, 1981.

PUBLIC SERVICE COMMISSION


Chairman

Did not participate
Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC
SERVICE COMMISSION IN CASE NO. 8000 DATED
APRIL 22, 1981

The following rates and charges are prescribed for the customers in the area served by Farmers Rural Electric Cooperative Corporation. 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 R
RESIDENTIAL SERVICE

Rates:

First	50 KWH	(Minimum Charge)	\$6.15 Per Month
Next	150 KWH		.06953 Per KWH
Remaining	KWH		.04542 Per KWH

Minimum Charges:

The minimum monthly charge to consumers billed under the above rate shall be \$6.15 for single-phase service. Payment of the minimum charge shall entitle the consumer to the use of the number of KWH corresponding to the minimum charge in accordance with the foregoing rate. The minimum monthly charge for three-phase service shall be \$.75 per KVA of installed transformer capacity.

SCHEDULE C
COMMERCIAL AND INDUSTRIAL SERVICE

Rates Per Month:

For all consumers whose kilowatt demand is less than 50 KW:

Kilowatt Demand Charge:			None
First	50 KWH	(Minimum Charge)	\$6.15 Per Month
Next	150 KWH		.07163 Per KWH
Remaining	KWH		.05015 Per KWH

For all consumers whose kilowatt demand is 50 KW or above:

Kilowatt Demand Charge: Per KW \$3.48

Energy Charge:

First	10,000 KWH	\$.04379 Per KWH
Next	20,000 KWH	.04219 Per KWH
Remaining	KWH	.04081 Per KWH

Minimum Monthly Charge:

The minimum monthly charge under the above rates shall be \$6.15 for single-phase service. Payment of the minimum charge shall entitle the consumer to the use of the number of kilowatt hours corresponding to the minimum charge in accordance with the foregoing rate.

The minimum monthly charge for three-phase service shall be 75¢ per KVA of installed transformer capacity or the minimum monthly charge stated in the service contract. Where it is necessary to extend or re-enforce 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 shall be included in accordance with the foregoing rate schedule.

SCHEDULE OL
OUTDOOR LIGHTING SERVICE

Rate Per Fixture:

<u>Type of Lamp</u>	<u>Watts</u>	<u>Monthly KWH Usage</u>	<u>Monthly Charge Per Lamp</u>
Mercury Vapor	175	70	\$ 5.52
Mercury Vapor	250	98	6.18
Mercury Vapor	400	156	9.36
Mercury Vapor	1000	378	15.76
Sodium Vapor	100	42	5.94
Sodium Vapor	150	63	6.83
Sodium Vapor	250	105	9.14
Sodium Vapor	400	165	11.53
Sodium Vapor	1000	385	24.85

RULES & REGULATIONS
MISCELLANEOUS FEES AND CHARGES

Delinquent Accounts

Collection and Reconnect Charge:

Regular	\$10.00
Overtime	20.00

Service Charge:

Trip Required	\$10.00
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Meter Reading Charge:

After Three Months	\$10.00
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Requested Test of Meter	\$10.00
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