

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF FARMERS RURAL)
ELECTRIC COOPERATIVE CORPORATION) CASE NO. 8438
FOR AN ORDER AUTHORIZING A BASIC)
RATE INCREASE)

O R D E R

On January 4, 1982, Farmers Rural Electric Cooperative Corporation ("Farmers") filed with the Commission an application requesting authority to increase its revenue by approximately \$419,600 annually, an increase of 4.27 percent over normalized annual revenue. Farmers stated that the increase was necessary to maintain its financial stability and meet the mortgage requirements of its primary lenders. Based on the determination herein, Farmers' revenue will increase by \$277,634 annually.

On January 21, 1982, the Commission scheduled a hearing for April 6, 1982, and directed Farmers to provide notice to its customers of the hearing and the proposed increase. The hearing was held as scheduled in the Commission's offices in Frankfort, Kentucky. In response to several letters and petitions from Farmers' consumers, the Commission held a public meeting on March 23, 1982, in Glasgow, Kentucky, for the purpose of receiving comments and testimony from interested consumers.

COMMENTARY

Farmers is a consumer-owned rural electric cooperative engaged in the distribution and sale of electric energy to approximately 14,300 member-consumers in the Kentucky counties of Adair, Barren, Edmonson, Grayson, Green, Hart, Larue, and Metcalfe. Farmers purchases all of its power from East Kentucky Power Cooperative, Inc.

TEST PERIOD

Farmers proposed and the Commission has accepted the 12-month period ending October 31, 1981, as the test period for determining the reasonableness of the proposed rates. In utilizing the historic test period, the Commission has given full consideration to appropriate known and measurable changes.

VALUATION

Net Investment

Farmers proposed in its Exhibit 12 a net investment rate base of \$13,090,509. The Commission concurs with this determination with the following exceptions:

Farmers adjusted materials and supplies to reflect a 12-month average for the test period. In accordance with past policy the Commission has adjusted materials and supplies to reflect the 13-month average and has also adjusted prepayments to reflect the 13-month average. Farmers included as working capital one-eighth of pro forma operation and maintenance expenses. The Commission has made certain adjustments to these expenses and accordingly

has adjusted the level of working capital found reasonable herein. Based on the Commission's adjustments, Farmers' net investment rate base for rate-making purposes is as follows:

Utility Plant in Service	\$ 16,574,012
Construction Work in Progress	173,324
Total Utility Plant	<u>\$ 16,747,336</u>
Add:	
Materials and Supplies	\$ 158,508
Prepayments	31,169
Working Capital	179,933
Subtotal	<u>369,610</u>
Deduct:	
Depreciation Reserve	\$ 3,895,726
Customer Advances for Construction	109,682
Subtotal	<u>\$ 4,005,408</u>
Net Investment	<u><u>\$ 13,111,538</u></u>

Capital Structure

The Commission finds from the evidence of record that Farmers' capital structure at the end of the test period was \$14,446,972 and consisted of \$3,614,351 in equity and \$10,832,621 in long-term debt. In the determination of this capital structure the Commission has excluded accumulated capital credit assignments from Farmers' wholesale power supplier in the amount of \$677,292.

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

REVENUES AND EXPENSES

In its Exhibit 3 Farmers proposed several adjustments to revenues and expenses to reflect more current and anticipated

operating conditions. The Commission finds the proposed adjustments are generally proper and acceptable for rate-making purposes with the following modifications:

Donations

During the test year Farmers incurred \$829 in expenses for donations to various civic and charitable organizations. The Commission is of the opinion that expenditures of this type produce little, if any, benefits to Farmers' consumers and, therefore, should not be allowed for rate-making purposes.

Advertising

Farmers incurred operating expenses in the amount of \$595 for promotional advertising during the test year. In accordance with the provisions of 807 KAR 5:016 the Commission has adjusted operating expenses by \$595 to eliminate this cost for rate-making purposes herein.

Loss on Bond Redemption and Interest Income

During the test year Farmers redeemed \$50,000 worth of 3.5 percent treasury bonds prior to maturity. As a result of this transaction Farmers incurred a penalty of \$8,500 which was recorded as an expense during the test period. The net proceeds of the treasury bonds were reinvested in short-term commercial paper which will provide a substantially higher yield to Farmers.

The Commission is of the opinion that an adjustment of \$8,500 should be made to exclude this extraordinary expense for rate-making purposes. Furthermore, the Commission finds that, prospectively, Farmers should realize interest income greater than the amount reflected in the test period due to the reinvestment of the proceeds of the treasury bonds. Therefore, we have adjusted interest income by \$735 to reflect, at an annual interest rate of 10 percent, the minimum level of additional income that should be realized through prudent investment of these funds.

Fuel Clause

The Commission adjusted Farmers' base rates in Case No. 8065 to roll into the base rate the fuel cost of its wholesale power supplier. In addition to the roll-in of current fuel costs, the Commission revised the method of calculating the monthly fuel adjustment charge to allow for over- and under-recoveries of the preceding month's fuel charge or credit. This revision will allow total recovery (or refund) of fuel adjustment charges or credits through the fuel adjustment clause. Therefore, the Commission has decreased revenue by \$227,073 and decreased purchased power expense by \$227,073 to exclude the fuel revenue and cost incurred during the test year. Likewise, in determining normalized revenue and power cost the Commission has excluded the normalized fuel revenue and expense proposed by Farmers.

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

	<u>Actual Test Period</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted Test Period</u>
Operating Revenues	\$ 9,119,622	\$ 811,988	\$ 9,931,61
Operating Expenses	<u>8,444,502</u>	<u>647,706</u>	<u>9,092,20</u>
Operating Income	675,120	\$ 164,282	839,40
Interest on Long-Term Debt	480,960	43,115	524,07
Other Income and (Deductions) - Net	52,069	10,064	62,13
Net Income	<u>\$ 246,229</u>	<u>\$ 131,231</u>	<u>\$ 377,46</u>

REVENUE REQUIREMENTS

The actual rate of return on Farmers' net investment rate base established herein for rate-making purposes was 5.15 percent. After taking into consideration the accepted pro forma adjustments, Farmers would realize a rate of return of 6.40 percent. The Commission is of the opinion that the adjusted rate of return is inadequate and a more reasonable rate of return would be 8.53 percent. In order to achieve this rate of return Farmers should be allowed to increase its annual revenue by approximately \$277,634 which would result in a TIER of 2.25. This additional revenue will provide net income of \$655,094 which should be sufficient to meet the requirements in Farmers' mortgages securing its long-term debt.

RATE DESIGN AND REVENUE ALLOCATION

Farmers did not propose any changes to its existing rate design. Farmers proposed to increase its rates by applying the same percentage increase to all rate blocks. The Commission is of the opinion that in this instance the proposed methodology is reasonable and should be accepted.

SUMMARY

The Commission, having considered the evidence of record and being advised, is of the opinion and finds that:

1. The rates in Appendix A are the fair, just and reasonable rates for Farmers and will produce gross annual revenue sufficient to pay its operating expenses, service its debt, and provide a reasonable surplus for equity growth.

2. The rates proposed by Farmers would produce revenue in excess of that found to be reasonable herein and, therefore, should be denied upon application of KRS 278.030.

IT IS THEREFORE ORDERED that the rates in Appendix A are approved for service rendered by Farmers on and after June 1, 1982.

IT IS FURTHER ORDERED that the rates proposed by Farmers be and they are hereby denied.

IT IS FURTHER ORDERED that within 30 days from the date of this Order Farmers shall file with the Commission its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 3rd day of June, 1982.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman

ATTEST:


Commissioner

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 8438 DATED JUNE 3, 1982

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)	\$6.30	Per Month
Next	150 KWH		7.152¢	Per KWH
Remaining	KWH		4.673¢	Per KWH

Minimum Charges:

The minimum monthly charge to consumers billed under the above rate shall be \$6.30 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)	\$6.30	Per Month
Next	150 KWH		7.365¢	Per KWH
Remaining	KWH		5.157¢	Per KWH

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

Kilowatt Demand Charge: Per KW \$3.58

Energy Charge:

First	10,000 KWH	4.503¢ Per KWH
Next	20,000 KWH	4.338¢ Per KWH
Remaining	KWH	4.196¢ Per KWH

Minimum Monthly Charge:

The minimum monthly charge under the above rates shall be \$6.30 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	\$ 5.68
Mercury Vapor	250	98	6.35
Mercury Vapor	400	156	9.62
Mercury Vapor	1000	378	16.21
Sodium Vapor	100	42	6.11
Sodium Vapor	150	63	7.02
Sodium Vapor	250	105	9.40
Sodium Vapor	400	165	11.86
Sodium Vapor	1000	385	25.55