COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF JACKSON ENERGY COOPERATIVE CORPORATION FOR AN ADJUSTMENT OF RATES	)))	 CASE NO. 2000-373

O R D E R

On October 9, 2000, Jackson Energy Cooperative Corporation ("Jackson Energy") applied for a $5,653,687 increase in retail electric service rates. The requested increase is 11.70 percent over normalized test-year operating revenues. Jackson Energy stated that the proposed increase was required in order for it to meet debt service obligations, cover operating costs, and maintain the minimum margins required by its mortgage agreement. By this Order, the Commission grants Jackson Energy an increase in revenues of $4,410,704 or an 8.89 percent increase over normalized test-year operating revenues.

BACKGROUND

Jackson Energy is a consumer-owned rural electric cooperative corporation, organized under KRS Chapter 279, engaged in the distribution and sale of electric energy to approximately 46,800 member-consumers in the Kentucky counties of Breathitt, Clay, Estill, Garrard, Jackson, Laurel, Lee, Leslie, Lincoln, Madison, Owsley, Powell, Pulaski, Rockcastle, and Wolfe. Jackson Energy has no electric generating facilities and purchases its total power requirements from the East Kentucky Power Cooperative, Inc. ("East Kentucky").

Jackson Energy has a wholly owned subsidiary, Jackson Service Plus, Inc. ("Service Plus"), which primarily provides home security systems, home monitoring systems, and tree trimming services. Jackson Energy and East Kentucky jointly own Jackson Energy Services Corporation ("Services Corp."),[1] which operates as the holding company for Jackson Energy Propane Plus, LLC ("Propane Plus").[2] Propane Plus sells propane gas, gas heaters, and related items that use propane gas.

On November 20, 2000, Jackson Energy filed a proposed tariff to modify its charge for reconnecting service after regular working hours. The Commission initiated Case No. 2000-547,[3] an investigation of Jackson Energy's proposed tariff modification, on December 21, 2000. In its February 9, 2001 Order in this proceeding, the Commission determined that the proposed modification should be considered in conjunction with the proposal to adjust general rates, consolidated Case Nos. 2000-547 and 2000-373, and closed Case No. 2000-547.

The Commission granted motions to intervene filed by the Attorney General, by and through his Office for Rate Intervention ("AG") and the Kentucky Cable

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[1] Jackson Energy owns 75 percent of Services Corp. and East Kentucky the remaining 25 percent.

[2] Formerly Jackson Thermogas Energy, LLC ("JTE"). JTE was a 50-50 percent partnership between Services Corp. and the Williams Company, which owned Thermogas. In December 1999, Ferrellgas purchased Thermogas from the Williams Company. After months of negotiations and study, Services Corp. exercised its option to purchase Thermogas's 50 percent ownership share, making Services Corp. the sole owner of JTE. After this acquisition, JTE was renamed Propane Plus.

[3] Case No. 2000-547, The Tariff Filing of Jackson Energy Cooperative Corporation to Revise the Rate for After-Hours Service Reconnection.

Telecommunications Association ("KCTA"). A public hearing was conducted on March 27, 2001, and all information requested during the hearing has been submitted.

TEST PERIOD

Jackson Energy proposed and the Commission has accepted the 12-month period ending February 29, 2000 as the test period for determining the reasonableness of the proposed rates. In utilizing the historical test year, the Commission has considered appropriate known and measurable changes.

VALUATION

Write Off of Distribution Plant

In 1994, Jackson Energy initiated a Geographic Information System ("GIS") project to establish detailed maps of its electrical system and provide a database containing detailed information on the facilities and quantities installed. A physical inventory of Jackson Energy's distribution system was begun in 1995 to verify the location of facilities, the type of facilities, quantities, and how the facilities should be placed in the GIS base map. In 1997, after completion of the inventory, Jackson Energy determined that its accounting records overstated its actual distribution plant in service by $14,535,593.[4] Jackson Energy does not know specifically how the accounting records became overstated, but believes that as plant was removed from service on work orders, it was not properly classified as retired and no information on the retirements was given to the accounting department.[5]

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[4] Response to the Commission Staff's 2nd Data Request dated December 6, 2000, Item 26(a).

[5] Response to the Commission Staff's 3rd Data Request dated January 16, 2001, Item 26(a).

To correct this overstatement, Jackson Energy wrote off $14,535,593 that was recorded in its distribution plant balances and reduced accumulated depreciation by the same amount. While recording the write off as if it were a routine plant retirement, Jackson Energy contends that no plant was retired in the adjustment. Jackson Energy states that this was only an accounting entry made to adjust the books and records to the physical inventory of plant in service.[6] The write off reflected a 12.48 percent reduction to the total electric plant and a 75.50 percent reduction to the total accumulated depreciation.[7]

In conjunction with his proposals concerning Jackson Energy's depreciation expense adjustment, the AG disagrees with the approach followed by Jackson Energy. The AG argues that the write off essentially depleted the accumulated depreciation account that resulted in a substantial reserve deficiency for Jackson Energy. This reserve deficiency in turn significantly influenced the proposed increase in depreciation rates using the remaining life approach. The AG contends the $14,535,593 is an overstated amount, since the write off was priced at November 1997 average unit costs. The AG argues that had these overlooked retirements been processed in the correct year, the unit costs would have been lower due to increase in prices over time. The AG proposes that the $14,535,593 be reclassified from accumulated depreciation to a

[6] Response to the Commission Staff's 2nd Data Request dated December 6, 2000, Item 26(d).

[7] Response to the Commission Staff's 3rd Data Request dated January 16, 2001, Item 28(a). To arrive at the percentages, the amount of the adjustment was divided by the total balance before adjustment. Thus, the percentage for total utility plant is $14,535,593 divided by $116,507,794, which equals 12.48 percent. The percentage for accumulated depreciation is $14,535,593 divided by $19,252,442, which equals 75.50 percent.

separate deferred debit account to be titled “Unrecorded Retirements” and the balance amortized over 25.5 years, which is the composite remaining life of the distribution plant. The AG contends this approach will eliminate the reserve deficiency and remove the effects of the deficiency on the new depreciation rates, while allowing Jackson Energy recovery of the amount written off.[8]

Jackson Energy disagrees with the AG’s proposed treatment of the 1997 distribution plant write off as a deferred debit, noting the approach is used only in extraordinary circumstances. Jackson Energy claims that the process of conducting a physical inventory of plant in service is a fairly common practice in the utility industry and that there is no evidence to suggest that the retirement of distribution assets could not have been reasonably anticipated.[9]

The Commission believes this situation demonstrates a significant breakdown in the internal controls over utility plant accounting at Jackson Energy. While Jackson Energy is convinced that the distribution plant did exist at some point in time on its system, its records cannot identify what components of the distribution plant were specifically affected or when the distribution plant units were actually retired. However, the Commission notes that Jackson Energy has undertaken steps to correct for this breakdown in internal controls by focusing on improvements to its retirement work order procedures and communication with the appropriate accounting personnel. The Commission expects Jackson Energy to continue to evaluate the reasonableness of its retirement accounting system.

[8] Majoros Direct Testimony at 15-20.

[9] Wiedmayer Rebuttal Testimony at 16-17.

The Commission does not concur with Jackson Energy's approach to handling this situation. The adjustment for such a significant overstatement in Jackson Energy's accounting records could not be considered a typical or customary business activity of the cooperative. Such an adjustment would not be expected to occur frequently or to be considered a recurring factor when ordinary operating business processes of the cooperative are evaluated. It is also apparent that Jackson Energy gave little consideration to the impact the write off would have on its depreciation reserve. In the Commission's opinion, this adjustment was an extraordinary event for Jackson Energy. Yet Jackson Energy did not contact either the Commission or the Rural Utilities Service ("RUS") to seek guidance on how to account for the situation.[10]

The Commission finds that the accounting treatment Jackson Energy used to adjust its overstated distribution utility plant is not reasonable and should be modified. After considering the circumstances in this case, the Commission generally agrees with the AG that the 1997 write off should be reclassified from accumulated depreciation to a separate subaccount of Account No. 186, Miscellaneous Deferred Debits. The balance in this subaccount should be amortized over a 25.5-year period. The annual amortization expense related to this item will be discussed later in this Order as part of the depreciation expense. The unamortized balance in this subaccount of Account No. 186 should not be included in the rate base of Jackson Energy.

The Commission has no basis to not accept Jackson Energy's assertion that the affected distribution plant existed on its system at some point in time. Therefore, as the distribution plant was in existence, some corresponding level of accumulated

[10] Transcript of Evidence ("T.E."), March 27, 2001 at 50.

depreciation should exist for this plant. As such, the deferred debit being created by this Order should reflect a net, rather than a gross, amount. The Commission finds it reasonable to use the depreciation reserve ratio prior to the write off to determine the accumulated depreciation for the distribution plant written off. This results in a net deferred debit of $12,004,946.[11] Appendix B to this Order contains the accounting entries that Jackson Energy should make to reflect the Commission's decision concerning the correction of its distribution plant overstatement.

Rate Base

Jackson Energy proposes a net investment rate base of $110,900,167 based on the test-year-end value of plant in service, the 13-month average for materials and supplies and prepayments, and the exclusion of the adjusted accumulated depreciation and the test-year-end level of customer advances for construction. Jackson Energy also proposes to include working capital based on one-eighth of adjusted operating expenses, exclusive of purchased power, depreciation, taxes, and other deductions.

The Commission concurs with Jackson Energy's proposal with the following modifications. As discussed previously in this Order, the Commission has reclassified the adjustment made to accumulated depreciation in 1997 as a miscellaneous deferred debit and recognized an amount of accumulated depreciation related to the removed distribution plant. Accumulated depreciation has also been adjusted to reflect the depreciation expense adjustment discussed later in this Order. The working capital has

[11] The depreciation reserve ratio prior to the write off was 17.41 percent. See Application Exhibit 3, page 3 of 9. Applying the 17.41 percent to $14,535,593 resulting in an accumulated depreciation amount of $2,530,647. The net of these amounts is $12,004,946.

been adjusted to reflect the pro forma adjustments to operating expenses found reasonable herein.

When determining the $167,576 shown as Prepayments, Jackson Energy included balances for Transformers and Interest Receivable. The AG proposes that the Interest Receivable account balances should be excluded and reduced the Prepayments balance by $24,264.[12] Jackson Energy agrees that neither the Transformer nor Interest Receivables balances should be included.[13] The Commission has recalculated the 13-month average balance, and will include $152,687 as Prepayments.

The final modification relates to how Jackson Energy recorded the construction of a new headquarters and office building. During the test year, Jackson Energy began construction on a new headquarters and office building. Although these additions to general plant were under construction during the entire test year, Jackson Energy recorded the construction as general utility plant in service. Jackson Energy acknowledges that this accounting treatment is not consistent with the RUS Uniform System of Accounts ("RUS USoA"), but explained that its work in progress system was not designed for general plant items.[14] Jackson Energy's external auditor testified that the amounts for the construction were immaterial and would have been reclassified in the next year. The auditor also stated that these amounts did not have a significant

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[12] Henkes Direct Testimony at 16.

[13] Response to the Commission Staff's 2nd Data Request dated December 6, 2000, Item 16.

[14] Id., Item 13(c).

impact on the financial statements, since both the utility plant in service and construction work in progress ("CWIP") are shown in the asset section of the balance sheet.[15] Jackson Energy argues that given these circumstances the balances for the new headquarters and office building were correctly recorded.[16]

The Commission is not persuaded by Jackson Energy's arguments. Jackson Energy's accounting for this construction is not correct. As Jackson Energy is fully aware, the RUS USoA requires that such construction activity should be recorded as CWIP, not utility plant in service. The assertion that the work order system was not designed to handle such transactions is not a reasonable justification for incorrectly recording utility plant in service. Jackson Energy should have made the modifications necessary for that system to properly track the construction cost of general plant in service additions. The materiality argument and the argument that the entries would have been corrected in the future are likewise unreasonable.

The Commission finds that Jackson Energy's test-year-end general utility plant balance is overstated by $121,997 and its CWIP balance is understated by $118,989.[17] The Commission will restate the balances for utility plant in service and CWIP to

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[15] T.E., March 27, 2001 at 34-35.

[16] Jackson Energy Brief at 2.

[17] Response to the Commission Staff's 3rd Data Request dated January 16, 2001, Item 15. The five individual projects had a test-year-end balance of $121,997. However, the McKee Renovation, costing $3,008, has been abandoned and is to be written off during 2001. The Commission's adjustment reduces plant in service of $121,997, but increases CWIP by $118,989 ($121,997 minus $3,008), reflecting the pending write off of the abandoned project.

eliminate the over- and understatement.[18] In addition, the Commission has deducted $2,987 from the accumulated depreciation balance to remove depreciation accumulated on these CWIP balances.[19]

Based on these adjustments, Jackson Energy's net investment rate base for rate-making purposes is as follows:

Utility Plant in Service	$116,125,782
CWIP	2,424,122
Total Utility Plant	$118,549,904
ADD:	
Materials and Supplies	$ 720,061
Prepayments	152,687
Working Capital	1,112,465
Subtotal	$ 1,985,212
DEDUCT:	
Accumulated Depreciation	$ 20,706,775
Customer Advances for Construction	296,687
Subtotal	$ 21,003,462
NET INVESTMENT RATE BASE	$ 99,531,654

Capital Structure

The Commission finds that Jackson Energy's capital structure at test-year-end for rate-making purposes was $106,492,407. This capital structure consisted of $30,809,356 in equity and $75,683,051 in long-term debt. The Commission has excluded generation and transmission capital credits ("GTCCs") in the amount of $7,032,960.

[18] Jackson Energy had also proposed to reduce CWIP by $234,723. The Commission has accepted that proposed adjustment.

[19] The balances for the individual projects were multiplied by the appropriate depreciation rates, and adjusted to recognize the partial year nature of certain projects.

REVENUES AND EXPENSES

Jackson Energy proposes several adjustments to revenues and expenses to reflect current and expected operating conditions. The Commission finds that six of the adjustments proposed by Jackson Energy and not opposed by the intervenors are reasonable and will be accepted without change:

> – the normalization of wages and salaries, a reduction in expense of $54,485;
> – the normalization of property taxes, an increase in expense of $68,728;
> – the normalization of interest on long-term debt, an increase in expense of $343,380;
> – the adjustment to interest expense on short-term debt, a reduction in expense of $299,167;
> – the normalization of purchase power expense and includes the fuel adjustment clause ("FAC") adjustment, an increase in expense of $1,135,100; and
> – the normalization of revenues and includes the FAC adjustment, an increase in revenues of $1,527,440.

The Commission makes the following modifications to the remaining proposed adjustments:

Customer Growth Adjustment - Revenue

Jackson Energy's proposed customer growth adjustment produces incremental pro forma test year revenues of $43,169 from annualized customer charges based on using 12 monthly data points for each month of the test year. The AG disagrees with the proposed customer growth adjustment, recommending that 13 monthly data points should be used, in order to reflect the beginning-of-year customer level, in calculating the test year average number of customers. The AG also recommends reflecting an additional increase in revenues due to increased sales volumes resulting from the increase in customers. The additional revenues resulting from these increased sales volumes is $446,263, resulting in total annualized revenue due to customer growth of $489,232. Although Jackson Energy maintains that it is improper to estimate consumption for new customers based on the consumption levels of existing customers, the AG's proposal is both theoretically sound and consistent with customer growth adjustments approved by the Commission in other electric utility cases. Therefore, the Commission will approve the customer growth revenue adjustment proposed by the AG resulting in an increase in test year revenues of $489,232.

Customer Growth Adjustment - Expense

The AG also recognizes customer growth-related expenses of $193,547 for increased wholesale power cost and increased PSC assessment amounts associated with the increase in sales and revenues resulting from customer growth. Other than these two expense items, the AG did not adjust any variable costs in conjunction with the customer growth revenue adjustment. In the Commission Staff's data request of February 27, 2001, the AG was asked to provide the calculation for certain variable costs consistent with the methodology approved by the Commission in two decisions in recent rate cases involving Delta Natural Gas and Louisville Gas and Electric Company. The calculation provided by the AG reflects incremental variable operating costs of $43,902 associated with customer growth. The Commission will accept that amount of additional expense along with the expense adjustment proposed by the AG for increased wholesale power cost and PSC assessment expenses of $193,547 for a total customer growth expense adjustment of $237,449.

Labor Related Costs

Payroll Taxes. Jackson Energy proposes a reduction in its payroll taxes[20] of $3,555, based on the proposed normalized wages and salaries and reflecting an increase in the Federal Insurance Contribution Act ("FICA") base wage limit from $72,600 to $76,200. Of this amount, $1,475 was capitalized and $2,080 was expensed. However, Jackson Energy acknowledges it had incorrectly reflected amounts for employee life insurance and vehicle compensation in the calculation of its proposed adjustment.[21]

The Commission agrees with Jackson Energy that these items should not be reflected in the adjustment, and has recalculated this adjustment. This recalculation is based on the level of normalized wages and salaries accepted by the Commission and using the FICA base wage limit of $76,200. This results in a reduction in payroll taxes of $3,819. After applying the test-year capitalization rate of 41.50 percent, the reduction in payroll tax expense would be $2,234.

Pension. Jackson Energy proposed no adjustment to its employee pension costs. In response to a Commission Staff data request,[22] Jackson Energy calculated its normalized pension cost. The normalized cost was $492,490, while the test-year actual cost had been $384,722. The increase was due to the normalization of Jackson

[20] Payroll taxes include FICA, Medicare, and Federal and State Unemployment.

[21] Response to the Commission Staff's 2nd Data Request dated December 6, 2000, Item 24(f).

[22] Response to the Commission Staff's 3rd Data Request dated January 16, 2001, Item 23(d).

Energy's wages and salaries and due to the fact that Jackson Energy's pension costs had been billed for part of the test year at less than 100 percent of the total cost.[23]

The AG opposes the recognition of the increase reflected in Jackson Energy's data response. The AG contends that the increase appeared to be high, given (1) the overall increase in wages and salaries was greater than the increase experienced between 1999 and 2000, and (2) the pension rate and formula used in the calculations were not supported in the record.[24]

After reviewing the pension information, the Commission does not agree with the AG. The change by Jackson Energy's pension administrator to 100 percent billing of pension cost makes the comparison to previous years that were not charged at 100 percent of little value. Jackson Energy has documented the accuracy of the pension rate and the formulas used are determined by the pension administrator, not Jackson Energy.

The Commission finds that Jackson Energy's pension cost should be increased by $107,768. After applying the test-year capitalization rate of 30 percent to the $107,768 increase, the Commission will include an adjustment to increase the expense by $75,438.

<u>401(k) Plans.</u> Jackson Energy proposed no adjustment to its employee 401(k) plan costs. In response to a Commission Staff data request,[25] Jackson Energy

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[23] <u>See</u> Production of Documents requested at March 27, 2001 Hearing, filed April 9, 2001.

[24] Henkes Direct Testimony at 34-35.

[25] Response to the Commission Staff's 3rd Data Request dated January 16, 2001, Item 23(c).

calculated its normalized 401(k) plan cost. The normalized cost was $80,538, while the test-year actual cost had been $79,510. The increase was due to an increase in the average hourly wage rate paid to employees. While the average hourly wage rate increased, the hours were normalized to 2,080, resulting in an overall decrease in wages and salaries. As noted previously, the Commission has accepted Jackson Energy's normalization of its wages and salaries.

The Commission finds that Jackson Energy's 401(k) plan costs should be increased by $1,028. After applying the test-year capitalization rate of 30 percent to the $1,028 increase, the Commission will include an adjustment to increase the expense by $720.

Post-Retirement Benefits. Jackson Energy proposed no adjustment to its annual accrual for post-retirement benefits. Jackson Energy accounts for its post-retirement benefits in accordance with the requirements of Statement of Financial Accounting Standards ("FAS") No. 106, which it adopted in 1994. Jackson Energy's test-year accrual of $345,600 reflected the results of an updated FAS No. 106 analysis performed in 1997.[26] In response to a Commission Staff data request, Jackson Energy recalculated its annual accrual to reflect conditions and assumptions as of test-year-

[26] Response to the Commission Staff's 2nd Data Request dated December 6, 2000, Item 40. The $345,000 reflects the accrual applicable to Jackson Energy's employees. Jackson Energy also provides post-retirement benefits to its directors, which is discussed later in this Order.

end.[27] The recalculation indicated that the annual accrual should be $518,400,[28] an increase of $172,800. Jackson Energy indicated that the increase reflected the fact that some younger employees had gone on long-term disability. Jackson Energy also indicated that had it had the time to perform the FAS No. 106 analysis before the case was filed, it would have recommended the recognition of the cost increase in this case.[29]

The Commission finds that the recalculated annual accrual should be recognized as an adjustment to this operating expense. After applying the test-year capitalization rate to the $172,800 increase, the Commission will include an adjustment to increase the expense by $120,960.

Other Employee Benefit Expenses. The AG proposes to reduce operating expenses by $12,547 to remove certain employee benefit expenses that he believes the Commission has usually excluded for rate-making purposes in cooperative cases.[30] The AG's proposal removes expenses associated with an employee picnic, employee

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[27] Id., Item 40(c)(3). The recalculated FAS No. 106 analysis was filed with the Commission on March 13, 2001.

[28] The accrual of $540,000 shown in the March 13, 2001 filing included the directors' portion of the accrual. Jackson Energy indicated that the allocation of the total amount should be based on the split between employees and directors as indicated on page 5 of 10 of the March 13, 2001 filing. The allocation based on the total accumulated post-retirement benefit obligations amounts is 96 percent for employees and 4 percent for directors. Applying the 96 percent to the total results in the $518,400. This allocation percentage is consistent with the results from the 1997 update. See T.E., March 27, 2001 at 37-38 and the Response to the Commission Staff's 2nd Data Request dated December 6, 2000, Item 40(b).

[29] T.E., March 27, 2001 at 38-39.

[30] Henkes Direct Testimony at 30-31 and Schedule RJH-6, page 1 of 3.

awards and prizes, tuition reimbursements, donations, Christmas hams and turkeys, and National Rural Electric Cooperative Association ("NRECA") meeting fees. Jackson Energy agreed that the expense for the employee picnic, donations, and Christmas hams and turkeys should be excluded for rate-making purposes.[31]

The Commission has reviewed these items and agrees with the AG that the expenses for the employee picnic, donations, and Christmas hams and turkeys should be excluded for rate-making purposes. However, the Commission is not in full agreement with the AG on the remaining items contained in the proposed adjustment.

Employee awards and prizes were comprised of retirement gifts and employee service awards. The Commission finds that while retirement gifts should be excluded for rate-making purposes, it is not appropriate to exclude employee service awards. The AG has assumed that tuition reimbursements are the same as scholarships, an expense the Commission has usually excluded. Tuition reimbursements are usually expenses related to classes and training employees undertake to improve their work-related skills. There is no demonstration in this record that this was not the case at Jackson Energy. The Commission finds that this is a reasonable expense and should be included. Finally, NRECA meetings generally have provided cooperative employees with information and training beneficial to the performance of the employees' work. The AG has not provided any evidence of why NRECA meeting fees should be excluded, and could not provide citations to previous Commission decisions where this expense

[31] Response to the Commission Staff's 3rd Data Request dated January 16, 2001, Item 44.

was excluded. Therefore, the Commission finds that this expense should be included for rate-making purposes.

During the Commission's review of these expenses, an expense of $6,050 for employee coffee supplies was identified. Jackson Energy has indicated that this expense should not be included for rate-making purposes.[32] The Commission agrees and finds that this expense should also be excluded for rate-making purposes.

Based on these findings, the Commission has reduced Jackson Energy's operating expenses by $12,492.[33]

<u>Directors' Fees and Expenses</u>

During the test year Jackson Energy paid its nine directors and two retired directors fees and expenses totaling $157,653. Jackson Energy proposes an adjustment to reduce this expense by $87,321, to exclude certain expenses for rate-making purposes.[34] The AG proposes to reduce these expenses an additional $31,184, for a total reduction of $118,505.[35] The AG's additional reduction included the removal of extra per diems for the Chairman and Secretary/Treasurer of the board of directors, expenses for the retired directors, numerous credit card charges, expenses associated

[32] <u>Id.</u>, Item 44(e)(3).

[33] This figure does not include the amount identified as donations. That amount has been included in the donations adjustment discussed later in this Order.

[34] Application Exhibit 6. The $87,321 adjustment was comprised of per diems paid for meetings other than the regular monthly directors' meetings, health insurance premiums, post-retirement benefits, and expenses associated with a manager search.

[35] Henkes Direct Testimony at 32-33 and Schedule RJH-6, page 3 of 3. The AG originally proposed a reduction of $41,609, but revised the proposal based on information supplied at the public hearing. <u>See</u> Post Hearing Brief of the AG at 6.

with directors' attendance at NRECA and Kentucky Association of Electric Cooperatives ("KAEC") meetings, and expenses associated with the Congressional breakfast. The AG contends that the expense for the retired directors is non-recurring and that the other expenses have been removed for rate-making purposes by the Commission in previous cooperative rate cases.

The Commission agrees with the AG concerning the removal of the extra per diems for the Chairman and Secretary/Treasurer, expenses for retired directors, and the Congressional breakfast. Concerning the credit card charges, while the Commission agrees that charges related to the Congressional breakfast should be removed, the remaining charges relate to directors' attendance at NRECA regional meetings and training courses. As these meetings and courses should enhance the directors' understanding of electric industry issues, the Commission finds it reasonable to include these expenses. Concerning the NRECA and KAEC annual meetings, in previous cooperative rate cases, the Commission has found it to be excessive to include annual meeting expenses for directors who were not the designated delegate or alternate. No evidence has been presented in this case to persuade the Commission to treat Jackson Energy differently. The Commission finds that the expenses for the one director designated as an alternate delegate should be included for rate-making purposes, while the remaining directors' NRECA and KAEC annual meeting expenses should be excluded.[36]

[36] Jackson Energy indicated that one director had been the alternate delegate at these meetings. See T.E., March 27, 2001 at 183-184. The AG has indicated that he was willing to abide by the Commission's past treatment of the NRECA and KAEC annual meeting expenses, but was unable to quantify the amount for a revised adjustment. See Post Hearing Brief of the AG at 6.

In addition, after reviewing all of the fees and expenses, the Commission has excluded expenses associated with a retirement gift and mileage expense for nominating committee meetings. The Commission finds that the retirement gift is a non-recurring expense. Concerning the nominating committee meeting mileage expense, the Commission notes that Jackson Energy has already removed the per diems associated with this activity. In addition, Jackson Energy's bylaws expressly prohibit directors from being members or a part of the nominating committee.[37]

Based on these findings, the Commission has reduced Jackson Energy's operating expenses by $105,197.

Rate Case Expense

Jackson Energy estimated its rate case expense at $33,000. It proposes to recover this expense through a 3-year amortization. This estimate did not include in-house labor. Throughout this proceeding, Jackson Energy has been providing updates of the actual expenses incurred in presenting this rate case. As of the April 9, 2001 update, Jackson Energy has expended $40,847[38] for this rate case. The Commission finds that a 3-year amortization of these expenses is reasonable and will allow an increase in operating expense of $13,616 to reflect the first year of the amortization for rate-making purposes.

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[37] Application Exhibit 17, page 12.

[38] The April 9, 2001 update included $6,633 for Jackson Energy's depreciation witness. See Production of Documents requested at March 27, 2001 Hearing, filed April 9, 2001. The Commission has reclassified this expense from rate case expenses to the cost of the depreciation study, which is discussed later in this Order.

Advertising Expenses

Jackson Energy proposes a reduction of $2,804 in advertising expenses related to institutional advertising.[39] This adjustment was composed of a $1,457 reduction to Account No. 913 – Advertising, and a $1,347 reduction to Account No. 930.20 – Institutional Advertising. The AG proposes an additional reduction of $3,095, which reflected the removal of two-thirds of the balance reported for Account No. 930.20. The AG notes that Jackson Energy claimed that one-third of the advertising was actually labor expense on safety advertising, while the remaining two-thirds was labor expense associated with institutional advertising.[40]

After reviewing the itemized advertising expenses in Account Nos. 913 and 930.20, the Commission finds that both Jackson Energy's and the AG's proposed adjustments must be recalculated. Jackson Energy's adjustment for advertising expenses recorded in Account No. 913 failed to remove a portion of the labor expense associated with that advertising. In addition, Jackson Energy did not correctly reflect the impact of advertising reimbursements in its adjustment. The Commission has determined that advertising expenses in Account No. 913 should be reduced by $229.[41] For Account No. 930.20, the Commission notes that Jackson Energy stated that two-

[39] Application Exhibits 9 and 11. Through an oversight, Jackson Energy omitted the adjustment shown on Exhibit 11 when determining its revenue requirements and proposed increase in rates.

[40] Henkes Direct Testimony at 31 and Schedule RJH-6, page 1 of 3.

[41] The ratio of total labor and overheads divided by total expenses recorded in Account No. 913 is 35.18 percent. This percentage was applied to the total disallowed expenses before reimbursements of $4,735, resulting in a labor expense disallowance of $1,666. The total $6,401 was offset by total advertising reimbursements of $6,172, resulting in the net adjustment of $229 for Account No. 913.

thirds of the labor expense in the account was related to institutional advertising, not two-thirds of the total balance. Using the corrected labor expense plus the original adjustment proposed by Jackson Energy and removing employee mileage, results in a reduction to advertising expenses in Account No. 930.20 of $3,563.[42]

In addition, the Commission has reviewed the expenses associated with Jackson Energy's Internet Website. The test-year expenses included the start up expenses and a partial year's worth of the continuing maintenance expenses. The Commission finds that the start up expenses are a non-recurring expense and should be excluded for rate-making purposes. In addition, the Commission finds that the continuing maintenance expense should be annualized. This results in a net reduction in expenses of $241.[43]

Therefore, the Commission has reduced advertising expenses by a total of $4,033.

Meter Reading Expense

During the test year Jackson Energy reported $422,343 in meter reading expenses. However, this total reflected 13 months of invoices. While Jackson Energy agreed that the expense should reflect only 12 months of invoices, it did not propose an

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[42] There has been no claim by Jackson Energy that the employee mileage expense recorded as institutional advertising was not exclusively related to that form of advertising, which is excluded for rate-making purposes under 807 KAR 5:016.

[43] Jackson Energy's start up expenses for the Internet Website totaled $1,200. The annualized maintenance expenses consist of phone line access and employee labor, which total $959. The net of these amounts is $241. See Response to the Commission Staff's 2nd Data Request dated December 6, 2000, Item 8(b) and Response to the Commission Staff's 3rd Data Request dated January 16, 2001, Item 11(b).

adjustment because it was a minor amount.[44] The AG recommends that the test-year expense be reduced by $31,183, which represents the earliest invoice and results in the balance reflecting 12 months of invoices.[45] The Commission agrees with the AG and will exclude the invoice dated March 12, 1999 from the meter reading expense. Therefore, meter reading expenses have been reduced by $31,183.

Outside Services Expenses

The AG proposes to reduce Jackson Energy's outside services expenses by $12,910. The proposed adjustment reflects the expense for a gas tank removal, expenses related to seminars, legal meetings, and subscriptions for its attorney, and the legal expense of a propane lawsuit. The AG notes that the gas tank removal expense is a non-recurring expense and that Jackson Energy agreed with the exclusion. The AG states that based on its review of previous Commission Orders in cooperative cases, the expenses for seminars, meetings, and subscriptions for attorneys have not been included for rate-making purposes. The AG, who argues that the legal expense of the propane lawsuit should be excluded, reasons that if Jackson Energy had not entered non-regulated businesses, the lawsuit would not have occurred.[46] Jackson Energy argues that the lawsuit's legal expenses should be included for rate-making purposes because it was properly named as a party to the lawsuit and bears those expenses.[47]

[44] Response to the Commission Staff's 3rd Data Request dated January 16, 2001, Item 18(b).

[45] Henkes Direct Testimony, Schedule RJH-2.

[46] Id. at 29-30 and Schedule RJH-6, page 2 of 3.

[47] Response to the Commission Staff's 3rd Data Request dated January 16, 2001, Item 35(a) and (b).

The Commission agrees with the AG concerning the gas tank removal expenses and the seminar, meeting, and subscription expenses for Jackson Energy's attorney. In addition, the Commission finds that the lawsuit expenses are of a non-recurring nature and should be excluded for rate-making purposes. Jackson Energy indicates that the lawsuit challenged its authority to establish the subsidiary businesses.[48] Given that summary judgment was entered in favor of Jackson Energy,[49] similar future challenges are unlikely.

During the review of the expenses associated with these outside services, the Commission identified an additional $267[50] of legal expenses associated with the lawsuit and an additional $395[51] in subscriptions for the attorney. The Commission has added these expenses to the adjustment proposed by the AG and has reduced Jackson Energy's operating expenses by $13,572.

[48] T.E. at 145.

[49] Lewis v. Jackson Energy Coop. Corp., et al., No. 99-CI-00530 (Laurel Cir. Ct., Div. I., 4/18/01).

[50] See Application Exhibit 6; Response to the Commission Staff's 2nd Data Request dated December 6, 2000, Item 31(c); and Response to the Commission Staff's 3rd Data Request dated January 16, 2001, Item 37.

[51] Response to the Commission Staff's 3rd Data Request dated January 16, 2001, Item 44(h) and Response to the AG's 2nd Data Request dated January 16, 2001, Item 32. In the reply to the Commission Staff, Jackson Energy states that the $395 expense classified as "Scholarships" should be excluded for rate-making purposes. In the response to the AG, Jackson Energy clarifies that the expense was a subscription for its attorney, but argues the expense should be included for rate-making purposes. Based on the nature of the expense, the Commission believes it should be excluded.

Miscellaneous Expenses

Donations. Jackson Energy proposes to reduce operating expenses by $4,410 to remove donations made during the test year.[52] The AG proposes an additional reduction of $5,211, based on his review of expenses recorded in other expense accounts.[53] Jackson Energy agrees that these items should not be included for rate-making purposes.[54] The Commission agrees with Jackson Energy and the AG and has reduced operating expenses by $9,621 to remove all donations.

Customer Service Expenses. The AG proposes to reduce customer service expenses by $23,569.[55] The proposed adjustment reflects the removal of expenses associated with awards, prizes, scholarships, directories, calendars, and a portion of the labor and overhead expenses allocated to Account No. 910 – Miscellaneous Consumer Services Expenses. The AG contends that this adjustment is consistent with the treatment of similar expenses by the Commission in prior cooperative rate cases, and

[52] This is the test year balance for Account No. 426 – Donations.

[53] Henkes Direct Testimony, Schedules RJH-5 and RJH-6. The AG's review identified donations recorded in Account Nos. 908, 909, 910, and 926. The donations recorded in Account No. 926 were discussed in the Other Employee Benefits Expense section of this Order.

[54] Response to the Commission Staff's 3rd Data Request dated January 16, 2001, Item 44(a).

[55] The AG originally proposed a reduction of $46,668. The AG revised this adjustment to $28,390, reflecting changes based on data responses and information provided during the public hearing. See Henkes Direct Testimony at 28-29, and Schedule RJH-5; and Post Hearing Brief of the AG at 4, and attachment titled "AG's Post-Hearing Position." Of this revised amount, $4,711 is related to donations and $110 is related to employee picnic expenses, which have been previously discussed in this Order. This section will address the remaining $23,569 of the revised adjustment.

states that Jackson Energy agrees with this position.[56] However, a review of the record shows Jackson Energy has only agreed that the scholarships, directories, and calendars should be excluded for rate-making purposes.[57]

The Commission agrees with the AG and Jackson Energy that expenses for scholarships, directories, and calendars should be excluded for rate-making purposes. The awards and prizes identified by the AG reflect employee service and safety awards.[58] The Commission finds that it is appropriate to include employee service and safety awards. Concerning the AG's labor and overhead adjustment, the AG has not explained why these expenses should be excluded nor has he explained how he determined the amount to be excluded. The Commission finds that the AG's adjustment for labor and overhead expenses should be rejected.

Based on these findings, the Commission has reduced customer service expenses by $4,219.

Annual Meeting Expenses. The AG proposes to reduce annual meeting expenses by $2,307. This adjustment reflects expenses for prizes and giveaways Jackson Energy provided at its annual meeting. The AG contends that this exclusion is consistent with the Commission's treatment of similar expenses in previous cooperative rate cases.[59]

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[56] Henkes Direct Testimony at 29.

[57] Response to the AG's 2nd Data Request dated January 16, 2001, Item 35.

[58] Response to the Commission Staff's 3rd Data Request dated January 16, 2001, Item 44(c).

[59] Henkes Direct Testimony at 33.

The Commission agrees with the AG that these expenses should be excluded for rate-making purposes. A further review of the annual meeting expenses reveals that Jackson Energy included directors' fees and mileage for a retired director. Jackson Energy has acknowledged that expenses for retired directors should not be included for rate-making purposes. Therefore, the Commission finds that Jackson Energy's annual meeting expenses should be reduced by $2,510.

Manager Search. The AG proposes a reduction in operating expenses of $10,098 to remove expenses associated with a manager search undertaken during the test year. The AG notes that Jackson Energy has already removed directors' fees and expenses associated with the manager's search. The AG contends that the remaining expense should be excluded for rate-making purposes because it is a non-recurring item.[60] Jackson Energy agrees that these expenses are non-recurring and should be excluded.[61] The Commission agrees with the AG and Jackson Energy and has reduced operating expenses $10,098.

Interest Expense on Customer Deposits

The AG proposes that customer deposit interest expense be normalized to reflect the test-year-end balance of customer deposits. The AG contends this approach is consistent with other adjustments proposed by Jackson Energy. This normalization results in a reduction to customer deposit interest expense of $35,097.[62] The

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[60] Id. at 33-34.

[61] Response to the Commission Staff's 2nd Data Request dated December 6, 2000, Item 38(e) and Response to the AG's 1st Data Request dated December 6, 2000, Item 55(c).

[62] Henkes Direct Testimony at 36.

Commission agrees and will reduce the customer deposit interest expense by the amount determined by the AG.

East Kentucky Marketing Loan Program

The AG proposes to normalize the interest expense on loans Jackson Energy has related to East Kentucky's marketing loan program. Using the test-year-end outstanding loan balance, the AG determined that this interest expense should be reduced by $9,400.[63]

From 1994 through 1998, Jackson Energy participated in the East Kentucky marketing loan program. As described by Jackson Energy, the loan program was established to encourage the purchase and installation of residential end-use products or energy efficiency upgrades that were being promoted under East Kentucky's marketing program. East Kentucky made loan funds available to any member cooperative that desired to use such funds. The member cooperative used these funds to make loans to member/consumers for the purchase and installation of products or upgrades that were endorsed by East Kentucky's board of directors. East Kentucky disbursed loan funds to member cooperatives on a quarterly basis, and the member cooperatives made principal and interest payments monthly to East Kentucky. Jackson Energy states that the principal repayment was amortized over a 6-year period. However, to meet the requirements of KRS 278.300, at the end of 2 years, the member cooperatives had the option of making a final balloon payment or renewing the outstanding balance for up to 2 years with payments based on a 6-year schedule. Jackson Energy believes that these loans were not subject to Commission approval

[63] Id.

under KRS 278.300, as the loans met the exception contained in KRS 278.300(8).[64] An April 1995 memorandum from East Kentucky to the participating member cooperatives outlines the intent to qualify the loan program under the exception contained in KRS 278.300(8).[65]

Jackson Energy provided the loan requests it signed for 11 loans made during its participation in the program. Except for one request made in July 1996, the loan requests do not reflect language that would fit the requirements of the exception in KRS 278.300(8).[66] Thus, while the stated intention of East Kentucky may have been to structure the loan program in a manner not requiring Commission approval for the loans, the documentation provided by Jackson Energy does not appear to conform with those stated intentions.

Therefore, the Commission finds that Jackson Energy should have sought Commission approval for the loans it made under the East Kentucky marketing loan program. Because the loans were not approved, the Commission finds that the test-year interest expense of $41,625 on those loans should not be included for rate-making purposes.

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[64] Response to the Commission Staff's 3rd Data Request dated January 16, 2001, Item 8(c) and (d).

[65] See Production of Documents requested at March 27, 2001 Hearing, filed April 9, 2001.

[66] Response to the Commission Staff's 2nd Data Request dated December 6, 2000, Item 7, pages 88, 91, 93, 96, 100, 103, 108, 111, 113, 121, and 129 of 143.

In addition, during the test year Jackson Energy wrote off $17,705[67] in loans where its member/consumers had defaulted. As with the interest expense on these loans, the Commission finds it is inappropriate for the expense of defaulted and written off loans to be included for rate-making purposes. Therefore, the defaulted loans written off during the test year will be excluded.

Based on these findings, the Commission has reduced other interest expense by $41,625 and reduced consumer assistance expenses by $17,705.

Depreciation Expense

Jackson Energy undertook its first depreciation study in February 2000, retaining Gannett Fleming Valuation and Rate Consultants, Inc. ("Gannett Fleming") to perform the study. The study determined recommended annual depreciation accrual rates for Jackson Energy as of December 31, 1999. The proposed depreciation rates were based on the remaining life methodology. Overall the proposed depreciation rates reflect a significant increase in depreciation on distribution plant, but a significant decrease in depreciation on general plant.[68] Gannett Fleming delivered the depreciation study results to Jackson Energy in August 2000. As the proposed depreciation rates for distribution plant varied with those prescribed in RUS Bulletin 183-1, Jackson Energy sought RUS approval of those rates. Jackson Energy received RUS approval of the proposed depreciation rates for its distribution plant on January 31,

[67] Response to the AG's 1st Data Request dated December 6, 2000, Item 56, page 2 of 16.

[68] See Application Exhibit 3, pages 8 and 9 of 9.

2001, with the approval covering a 5-year period beginning January 1, 2001.[69] Using the Gannett Fleming study results, Jackson Energy proposes an increase in depreciation expense of $2,757,175 with a corresponding reduction in its transportation clearing account of $397,135.[70] After applying the test-year capitalization rate of 49.0 percent, the reduction in the transportation clearing account expense would be $202,539.

The AG accepts the use of the remaining life methodology and the service lives contained in the Gannett Fleming study, as well as the depreciation rates proposed for Jackson Energy's general plant. The AG also accepts the proposed reduction in the transportation clearing account of $397,135. The AG opposes the proposed depreciation rates for the distribution plant, citing three reasons.

The first reason relates to the negative net salvage incorporated into the distribution plant depreciation rates. The AG contends that the net salvage analysis excluded certain significant cash receipts, which are credited to the accumulated depreciation account. The AG believes the net salvage analysis was flawed because it was conducted at the functional level, but applied to individual plant accounting using a ratio. The AG also notes that the 1997 distribution plant write off was not reflected in the net salvage analysis.[71]

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[69] Response to the Commission Staff's 2nd Data Request dated December 6, 2000, Item 28(g), supplemental response filed February 12, 2001.

[70] Application Exhibit 3, page 1 of 9.

[71] Majoros Direct Testimony at 13-14.

The second reason relates to the 1997 distribution plant write off. The AG notes that the write off depleted the accumulated depreciation account and created a substantial reserve deficiency. The AG argues that a reserve deficiency will exacerbate a depreciation rate increase when using the remaining life methodology.[72]

The AG's final reason relates to the operation of the remaining life methodology. The AG argues that the combination of significant negative net salvage coupled with the 1997 distribution plant write off will have a compounding effect and further increase depreciation rates using the remaining life methodology.[73]

The AG proposes revised depreciation rates for distribution plant, using the remaining life methodology and the service lives contained in the Gannett Fleming study. In determining his proposed distribution plant depreciation rates, the AG removed the negative net salvage ratios and the 1997 distribution plant write off. The AG proposes that the net salvage component normally included in depreciation rates be recovered using an average net salvage allowance approach. Under this approach, the average annual net salvage is calculated, then added to the annual depreciation expense, and included in the accumulated depreciation account. The AG proposes that a 5-year average be used.[74] The AG also proposes that the 1997 distribution plant write off be reclassified from accumulated depreciation to a separate deferred debit account

[72] Id. at 18.

[73] Id. at 5.

[74] Id. at 14-15.

and amortized over the 25.5 year composite remaining life of the distribution plant.[75] Based on these proposals, the AG recommends an increase in depreciation expense of $1,833,720.[76]

Jackson Energy objects to the AG's proposals concerning the distribution plant depreciation rates. Jackson Energy argues that net salvage has traditionally been incorporated in the determination of depreciation rates. Jackson Energy contends that the average net salvage allowance approach inappropriately shifts the burden of this cost from the cost causers. Jackson Energy notes that this is different from that followed by the Commission.[77]

The Commission agrees with the AG. The Commission's findings concerning the 1997 distribution plant write off have been discussed previously in this Order. Concerning the treatment of net salvage, while the Commission agrees that net salvage is normally recovered as part of the depreciation rates, the AG has offered persuasive reasons supporting a departure in this case from the normal approach. The Commission finds that it is reasonable under these circumstances to use the average net salvage allowance approach proposed by the AG. This approach should be utilized

[75] Id. at 20. The AG's proposal concerning the 1997 distribution plant write off and Jackson Energy's rebuttal position have been discussed previously in this Order.

[76] The AG originally proposed an increase of $1,838,807. See Majoros Direct Testimony, Exhibit MJM-7, page 2 of 3. This increase results from adding the transportation clearing account adjustment to the difference between the AG's normalized depreciation expense and the test-year actual expense. The AG revised his increase to remove the effects of the new headquarters and office building being classified as plant in service rather than CWIP. See Post Hearing Brief of the AG, attachment titled "AG's Post-Hearing Position."

[77] Wiedmayer Rebuttal Testimony at 3, 6, and 7.

until Jackson Energy undertakes a new depreciation study.[78] The Commission further finds that the distribution plant depreciation rates proposed by the AG are reasonable and should be approved. Finally, the Commission finds the depreciation rates proposed by Jackson Energy and the AG for general plant are reasonable and should be approved. Jackson Energy should seek RUS approval of the depreciation rates approved by the Commission as soon as possible.

Based on these findings, the Commission has determined that Jackson Energy's depreciation expense should be increased by $1,716,894. This increase includes $706,376 for the average net salvage allowance and $470,782 for the first-year amortization of miscellaneous deferred debit related to the 1997 distribution plant write off, as discussed previously in this Order and in Appendix B. The Commission has also reviewed the calculation of the transportation clearing account adjustment and finds that Jackson Energy was inconsistent in its calculations.[79] Based on this review, the Commission finds that the transportation clearing account should be reduced by $379,547. After applying the test-year capitalization rate of 49.0 percent, the reduction in transportation clearing account expense would be $193,568.

[78] The timing of a new depreciation study is discussed later in this Order.

[79] In determining the adjustment, Jackson Energy took the sum of the test-year actual depreciation expense for Transportation and Transportation – Other and compared it with the proposed depreciation expense for Transportation. There would appear to be no reason for this inconsistency. The Commission's adjustment compares the test-year actual and normalized depreciation expense for both plant categories.

Depreciation Study Costs

Jackson Energy paid Gannett Fleming $28,507 for the depreciation study.[80] Jackson Energy recorded the study costs in a CWIP account, but acknowledged this was incorrect and reclassified the study costs to Account No. 923 – Outside Services.[81] Jackson Energy has not sought recovery of the depreciation study costs in this case. The AG indicates that it would be appropriate to amortize the study costs over a 5-year period.[82]

The Commission finds that it is appropriate for Jackson Energy to recover the costs of the depreciation study in this case. Jackson Energy should remove the depreciation study costs from its operating expenses and record the balance of $28,507 in a subaccount of Account No. 186 – Miscellaneous Deferred Debits. The Commission agrees with the AG that this deferred debit should be amortized over a 5-year period. Based on these findings, the Commission has increased operating expenses to recognize the first year of amortization by $5,701.

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[80] Response to the Commission Staff's 2nd Data Request dated December 6, 2000, Item 28, pages 15 through 26 of 27. This amount also includes $6,633 paid to Gannett Fleming that Jackson Energy classified as rate case expenses. See Production of Documents requested at March 27, 2001 Hearing, filed April 9, 2001. However, as Gannett Fleming's involvement with this rate case was related to supporting its depreciation study, the Commission believes it is more appropriate to include this payment as part of the total cost of the depreciation study.

[81] Response to the Commission Staff's 3rd Data Request dated January 16, 2001, Item 31(b).

[82] Response to the Commission Staff's 1st Data Request to the AG dated February 27, 2001, Item 13.

Subsidiary Expenses

As noted previously in this Order, Jackson Energy has a wholly owned subsidiary, Service Plus, and jointly owns Services Corp., which in turn owns Propane Plus. Jackson Energy's business relationship with each subsidiary is as follows:

> Service Plus – The board of directors for Service Plus are the same individuals who serve on Jackson Energy's board of directors. Jackson Energy allocates costs to Service Plus for labor, transportation, and employee benefits based on time sheet information. Jackson Energy does not allocate any cost for office and warehouse space utilized by Service Plus and no board of directors expenses are allocated to Service Plus.[83]
>
> Services Corp. – The officers of Service Corp. include two Jackson Energy employees and one member of its board of directors. No costs for the employees or director are allocated to Services Corp.[84]
>
> Propane Plus – The officers of Propane Plus include two Jackson Energy employees and one member of its board of directors. Jackson Energy leases office space and a site for a propane storage tank to Propane Plus. No costs for the employees or director are allocated to Propane Plus.[85]

Jackson Energy does not allocate any utility costs to the subsidiaries because it considers the allocation amount to be insignificant.[86] Although Service Plus and

[83] Response to the Commission Staff's 2nd Data Request dated December 6, 2000, Item 45, page 6 of 10 and Response to the Commission Staff's 3rd Data Request dated January 16, 2001, Item 40(f), (h), and (i).

[84] Response to the Commission Staff's 1st Data Request dated August 22, 2000, Item 46.

[85] Response to the Commission Staff's 2nd Data Request dated December 6, 2000, Item 46(i) and Response to the Commission Staff's 3rd Data Request dated January 16, 2001, Item 40(e).

[86] Response to the Commission Staff's 3rd Data Request dated January 16, 2001, Item 40(f).

Propane Plus are promoted on its Internet Website, Jackson Energy did not allocate any costs of the Website to the subsidiaries because the space used was considered to be minimal.[87]

The Commission does not challenge Jackson Energy's diversification into non-regulated businesses. However, Jackson Energy's failure to allocate all common or joint costs to its subsidiaries raises concerns that the non-regulated businesses may be subsidized by the regulated cooperative. The Commission has expressed these concerns before, in Administrative Case No. 326,[88] when several jurisdictional cooperatives became involved in the distribution and sale of satellite-delivered television programming services. The portion of the guidelines issued in Administrative Case No. 326 that expressly address these concerns was read into the record by Jackson Energy at the public hearing, and state:

> In order to minimize the possibility that utility ratepayers cross-subsidize the satellite-TV operations, all costs must be properly identified, allocated, and recorded. The principle applies irrespective of the materiality of the cost. Nonutility operating costs should not be recorded as utility operating costs.[89]

In addition, KRS 278.2201 addresses the concerns of cross-subsidization by stating, "A utility shall not subsidize a nonregulated activity provided by an affiliate or by the utility itself."

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[87] Id., Item 11(c).

[88] Administrative Case No. 326, An Investigation Into the Diversification of Rural Electric Cooperative Corporations Into the Satellite-Delivered Television Programming Services, final Order dated March 18, 1991.

[89] T.E., March 27, 2001 at 176-177.

After reviewing the information in this case, the Commission has identified certain expenses that should be allocated to Jackson Energy's subsidiary operations. These expenses are Jackson Energy's on-going Internet Website expenses, directors' per diem and mileage, and employee salaries. In addition, the Commission believes there may be other expenses that should be allocated, but at this time the information needed to make a reasonable allocation is not available. The Commission expects Jackson Energy to undertake the steps necessary to bring its accounting and allocation procedures into compliance with the requirements of KRS 278.2201.

The Commission finds that Jackson Energy's operating expenses should be reduced by $7,678.[90] The Commission notes that in arriving at this adjustment it utilized allocation factors that appear reasonable under these circumstances. It is the responsibility of Jackson Energy to establish and implement cost allocation procedures that result in the proper treatment of expenses shared between Jackson Energy and its subsidiaries.

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[90] The allocation of Website expenses was based on the fact that two of the Website's 16 pages were primarily devoted to subsidiary products and services. Using this relationship as the basis for an allocation factor results in a 12.5 percent allocation factor. For directors' per diem and mileage, Jackson Energy stated that approximately 10 minutes of each monthly board meeting is related to subsidiary issues, and that an average board meeting lasts approximately four and one half hours. Using this relationship as a basis for an allocation factor results in a 3.7 percent allocation factor. For employee salaries, Jackson Energy indicated that the total salaries for those employees performing work for the subsidiaries was $176,850. <u>See</u> Response to the Commission Staff's 1st Data Request dated August 22, 2000, Item 46 and Response to the Commission Staff's 2nd Data Request dated December 6, 2000, Item 46. In lieu of actual time records, the Commission has applied the 3.7 percent allocation factor used for the directors' per diem and mileage to arrive at the amount allocated.

PSC Assessment

Jackson Energy did not propose an adjustment to its PSC Assessment to reflect the effects of its normalization of revenues and purchase power expense or the impact of its proposed revenue increase. The AG did propose such an adjustment, increasing operating expenses by $22,894.[91]

The Commission has calculated an adjustment to the PSC Assessment that reflects the normalization of revenue and purchase power found reasonable in this Order and applied the current PSC Assessment rate. This calculation results in an increase in the PSC Assessment of $14,561. The Commission has also determined the impact of the revenue increase granted herein and provided for an additional PSC Assessment expense of $8,605.

Pro Forma Adjustments Summary

The effect of the pro forma adjustments on Jackson Energy's net income is as follows:

	Actual Test Period	Pro Forma Adjustments	Adjusted Test Period
Operating Revenues	$47,555,106	$ 2,075,210	$49,630,316
Operating Expenses	43,148,389	2,901,816	46,050,205
Net Operating Income	4,406,717	(826,606)	3,580,111
Interest on Long-Term Debt	3,642,384	343,378	3,985,762
Other Income and (Deductions) – Net	(391,001)	380,299	(10,702)
NET INCOME	$ 373,332	$ (789,685)	$ (416,353)

[91] Henkes Direct Testimony, Schedule RJH-8.

REVENUE REQUIREMENTS

Revenue Increase

The actual rate of return earned on Jackson Energy's net investment rate base established for the test year was 3.54 percent. Jackson Energy requests rates that would result in a Times Interest Earned Ratio ("TIER") excluding GTCCs of 2.00X and a rate of return of 7.19 percent on its proposed rate base of $110,900,167. Jackson Energy proposes an increase in revenues of $5,653,687 to achieve the 2.00X TIER excluding GTCCs.

The AG agrees with Jackson Energy and has recommended a 2.00X TIER excluding GTCCs. Based on his recommended rate base of $111,774,218, the AG's proposed increase would produce a 7.13 percent return. The AG proposes an increase in revenues of $4,273,417 to achieve the 2.00X TIER excluding GTCCs.

Jackson Energy's actual TIER excluding GTCCs for the test period was 1.10X. For the calendar years 1998 and 1999, it was 1.56X and 1.30X, respectively. After taking into consideration pro forma adjustments, Jackson Energy would achieve a .90X TIER excluding GTCCs without an increase in revenues. Jackson Energy's equity to total capitalization ratio is 28.93 percent based on the approved capital structure.

Revenue requirements calculated to produce a TIER excluding GTCCs of 2.00X should be approved. To achieve the 2.00X TIER, Jackson Energy should be allowed to increase its annual revenues by $4,410,704. This increase includes an additional $8,605 to reflect the associated increase in Jackson Energy's PSC Assessment. This additional revenue should produce net income of $3,985,746, which should be sufficient for Jackson Energy to meet its mortgage requirements and service its mortgage debts.

PRICING AND TARIFF ISSUES

Cost of Service and Revenue Allocation

Jackson Energy filed an allocated cost-of-service study ("COSS") using a model developed by East Kentucky. The purpose of the COSS was to determine the cost to serve and related revenue requirements for each rate class. There were no objections to the COSS, and having reviewed it for the purpose proposed by Jackson Energy, the Commission finds that the COSS is acceptable and shall be used as a guide in allocating the revenue increase awarded herein.

Jackson Energy proposes a revenue increase of $5,692,842 or 11.8 percent, with class increases of residential -13.7 percent; commercial - 13.7 percent; and industrial - 1.9 percent. Following the allocation resulting from the COSS, the increase of $4,410,704, or 9.1 percent, awarded herein results in class increases of residential - 10.5 percent; commercial - 10.5 percent; and industrial - 1.5 percent.

Rate Design

Generally, Jackson Energy proposes to assign larger percentage increases within its various customer classes to the customer charges than to the energy and/or demand charges. Based on the COSS and as a means of promoting revenue stability, the Commission has determined that customer charges should be increased to the levels proposed by Jackson. Increases in energy charges, and demand charges, if applicable, that are less than proposed by Jackson Energy, are approved to generate the remainder of the revenue requirement for the individual rate classes.

CATV Attachments

Jackson Energy proposes to increase its charges for CATV Attachments based upon the current costs of providing these services. In calculating these costs, Jackson Energy reflects a rate of return based upon gross investment rather than net investment in poles. On March 14, 2001, a stipulation agreement was reached by Jackson Energy, KCTA, and the AG in which all parties agree to be bound by the Commission's determinations on the methodology for determining CATV charges in Cumberland Valley Electric, Case No. 2000-359 and Blue Grass Energy Cooperative, Case No. 2000-414.[92] The parties also agree to be bound by the Commission's decision in the present case concerning depreciation. The CATV attachment charges in Appendix A to this Order, which are approved for service on and after the date of this Order, are based on the same methodology used in Case No. 2000-359. They also reflect adjusted test year expense levels, the depreciation adjustment approved herein, and the rate of return of 8.02 determined herein, adjusted by a net-to-gross plant ratio of 86.2 percent to produce a net-to-gross return of 6.91 percent.

Miscellaneous Charges – After-Hours Reconnects

In a data response dated January 8, 2001 in Case No. 2000-547, Jackson Energy reversed its original proposal indicating it wished to change the charge from "at cost" to a fixed charge of $150 based on the labor costs for two employees. Although Jackson Energy indicated that employee health and safety concerns were the reason for including the cost of two employees in the calculation of the $150 charge, it has not

[92] Case No. 2000-359, Application of Cumberland Valley Electric, Inc. to Adjust Its Rates; Case No. 2000-414, Application of Blue Grass Energy Cooperative Corporation to Adjust its Rates.

adequately justified the need for having two employees involved in after-hours reconnections. Subsequent to the formal hearing in this case, Jackson Energy provided calculations in support of the $85 cost of having one employee involved in an after-hours reconnection. This level of cost, based on one employee, is reasonable and acceptable and will be approved by the Commission.

Tariff Issues

The Commission encountered several tariff issues that should be addressed by Jackson Energy. No tariff for Rate 22 – Commercial, Small Power and Three-Phase Farm Service – Time of Day Service could be located on file with the Commission despite the existence of customers subscribing to the rate schedule. A tariff detailing the terms and conditions for Rate 22 should be filed with the Commission within 10 days of the date of this Order.

Jackson Energy has a relatively large number of tariffs for a cooperative of its membership size. Tariffs exist that have no customer base, or in some instances only one or two customers. Jackson Energy should investigate eliminating or combining some of these tariffs. Rate 21 – Commercial, Small Power and Three-Phase Farm Service – Time of Day Service and Rate 34 – Water Pumping Service – Time of Day are examples of rate schedules that are not utilized and could be considered for elimination. Rate 12 – Residential Service – Time of Day now includes only one customer and could be considered for inclusion with Rate 11 – Residential, Farm and Non-Farm Off Peak Retail Marketing Rate.

Jackson Energy requests an increase in the after-hours reconnection fee that would result in a $150 charge for the service. Jackson Energy has been charging only

$40 for this service, despite having a $60 fee authorized in its current tariff. Jackson Energy is statutorily required to charge no greater or less compensation for any service rendered than that prescribed in its filed tariffs. KRS 278.160.

Jackson Energy requires a 3-year minimum service period for mobile homes. The Commission could not find this requirement in Jackson Energy's rules and regulations. Any service-related requirement such as this must be included in the cooperative's rules and regulations.

OTHER ISSUES

Discontinuance of Required Capital Credit Rotation

Under the terms of the 1993 Settlement Agreement reached in Jackson Energy's last general rate case, Case No. 93-088,[93] all total margins in excess of a 2.00X TIER are to be used to retire capital credits to Jackson Energy's members. The revenue requirements established in that Settlement Agreement were based on a 2.30 TIER.

Jackson Energy now requests that this provision of the Settlement Agreement be eliminated because it finds the provision to be contrary to its intent to refund capital credits to its members. This is due to the constraints within its mortgage agreement with the RUS that require Jackson Energy to have a Current Ratio above 1.0 before capital credits are refunded. The Current Ratio is the ratio of current assets to current liabilities. Jackson Energy also notes that the margins earned in future years will be needed to restore its financial stability, after years of declining margins. The continuation of the required rotation would not permit Jackson Energy to devote future

[93] Case No. 93-088, Application of Jackson County Rural Electric Cooperative Corporation for Adjustment of Rates, final Order dated October 7, 1993.

years' margins to the restoration of its financial stability. The AG does not oppose the discontinuation of the required capital credit rotation.

Jackson Energy's financial performance over the past 3 calendar years has been deteriorating. The net margins, rate of return on rate base, achieved TIER, and debt service coverage ratio have all been declining.[94] The Commission finds that, under the current circumstances, it is reasonable to eliminate the requirement that all margins in excess of a 2.00X TIER be used to retire capital credits to members. In this proceeding Jackson Energy has requested, and the Commission is authorizing, a TIER of 2.00X. The revenue requirement approved in this Order is not designed to generate revenues in excess of a 2.00X TIER.

By eliminating this provision of the Settlement Agreement, the Commission reminds Jackson Energy that it still has the obligation to retire capital credits to its members as it is financially able to do so. While Jackson Energy's recent performance has been less than adequate, its equity to total capitalization ratio is at 28.93 percent, which is near to the target range stated in Board Policy No. B200. In March 2000 Jackson Energy adopted Board Policy No. B200, which is its revised capital management policy.[95] The revised policy sets out certain financial goals and requires:

> a) The development of a long-range financial plan, which is to be updated periodically;
> b) The development of a capital credit rotation program; and
> c) An annual financial study and review of the equity and capital management performance.

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[94] Application Exhibit K.

[95] Application Exhibit 22.

During the processing of this case, Jackson Energy indicated that the capital credit rotation program has not been developed and that the annual financial study and review has not been performed. Jackson Energy has prepared two long-range financial plans, although several months passed between the end of the historical data period and the actual preparation of the plan.

The Commission believes that Jackson Energy has adopted a reasonable capital management plan. The expressed goals, financial planning, and periodic evaluation of performance should benefit Jackson Energy in its efforts to achieve financial stability. However, if Jackson Energy does not follow through with the requirements of its capital management plan there will be little opportunity for improvement. The Commission is concerned that Jackson Energy apparently has not seen the need to promptly comply with its own board policies. Therefore, the Commission finds that Jackson Energy should include with its annual financial report filed with the Commission a status report addressing its compliance with Board Policy No. B200. This status report will indicate the completion date of its most recent long-range financial plan and the results of its most recent annual financial study and review of the equity and capital management performance. This status report should be filed along with the annual reports for calendar years 2002, 2003, and 2004. In addition, the Commission finds that Jackson Energy should develop and adopt a capital credit rotation program. A copy of the adopted capital credit rotation program should be included with the 2002 annual report filed by Jackson Energy.

Line of Credit Guarantee

In August 1998 Jackson Energy executed documents that guaranteed a secured line of credit for Service Plus with the National Cooperative Services Corporation. The maximum amount that may be borrowed at any one time cannot exceed $1,000,000. The term of the secured line of credit is 60 months.

KRS 278.300(1) states "No utility shall issue any securities or evidences of indebtedness, or assume any obligation or liability in respect to the securities or evidences of indebtedness of any other person until it has been authorized so to do by order of the commission." Jackson Energy has neither sought nor been granted the authority to be the guarantor of this line of credit.

The Commission finds that Jackson Energy's guarantee of the secured line of credit for Service Plus is not in compliance with the provisions of KRS 278.300(1). Jackson Energy should file its application seeking such approval with the Commission within 30 days of the date of this Order.

Losses Experienced by Propane Plus

Since its beginning in July 1998, Propane Plus has experienced significant net losses. In calendar year 1998 the net loss was $75,454; in 1999 the net loss was $198,828; and in 2000 the net loss was $84,081. In addition, Propane Plus reported in its financial statements for 2000 a note payable in the amount of $817,852 to East Kentucky. As noted previously in this Order, Jackson Energy and East Kentucky jointly own Services Corp., which in turn owns Propane Plus.

The Commission has concerns about the ability of Propane Plus to continue as a going concern and the impact a possible failure of the non-regulated business will have on Jackson Energy's financial condition. While recognizing that it usually takes new businesses some time to begin showing a profit, the magnitude of the losses experienced by Propane Plus coupled with the significant borrowing from East Kentucky are troubling. Unlike an investor-owned utility, neither Jackson Energy nor East Kentucky has shareholders to turn to in the event a non-regulated business venture fails. The Commission believes Jackson Energy should review the situation concerning Propane Plus now, rather than waiting for a few more years of operations. After reviewing the situation, and if current and anticipated conditions warrant, Jackson Energy should consider divestiture of its propane operations.

Future Depreciation Study

Both Jackson Energy's and the AG's depreciation experts acknowledge that continued review and periodic revisions are normally required to maintain continued use of appropriate annual depreciation accrual rates. Both experts also indicate that the usual time between depreciation studies is approximately 5 years. In addition, it is hoped that Jackson Energy's net salvage data will be more complete by that time, and that any new study would be able to incorporate a net salvage component into the depreciation rates recommended. The Commission finds that Jackson Energy should undertake a new depreciation study that should be completed no later than May 2006.

Accumulated Depreciation Accounting Records

Jackson Energy maintains its accumulated depreciation accounts using two approaches. Distribution plant accumulated depreciation is maintained at the functional level of detail, while general plant accumulated depreciation is maintained at the account level of detail. The lack of account level detail for the distribution plant accumulated depreciation contributed to one of the objections the AG had with Jackson Energy's depreciation study. Jackson Energy's depreciation expert acknowledges that the analysis for a depreciation study would be more direct and more accurate if all accumulated depreciation account balances were maintained at the account level.[96]

The majority of Jackson Energy's accumulated depreciation account balance is related to distribution plant. The RUS USoA only requires accounting records be maintained at the functional level, but does not prohibit a cooperative from keeping more detailed information. In addition, under the approach utilized in the calculation of CATV Attachment rates, it is necessary to have the accumulated depreciation available for specific distribution plant accounts.

The Commission finds that Jackson Energy should adjust its accounting system and should begin maintaining the accumulated depreciation balances at the account level. The Commission realizes that conversion from the functional level to the account level will require some effort on the part of Jackson Energy. However, the Commission believes it is reasonable to maintain this important accounting information at this level of detail. The Commission also finds that Jackson Energy should submit a report showing its conversion of the distribution plant accumulated depreciation balances from the functional level to the account level. The report should include all assumptions and rationale used to develop the account level balances. The report should be submitted to the Commission within 6 months of the date of this Order.

The Commission wishes to stress that Jackson Energy is not being singled out for this requirement. The Commission believes that all cooperatives under its

[96] T.E., March 27, 2001 at 107.

jurisdiction should keep accumulated depreciation balances at the account level. The Commission does not believe this to be an unreasonable requirement given the level of computerization available to the cooperatives. This level of detail will be necessary for any cooperative planning to revise its CATV Attachment rates.

Focused Management Audit

During this proceeding, the Commission has become aware of several instances with regard to the management and operation of Jackson Energy that cause it concern. These instances have included:

– Jackson Energy's handling of the 1997 distribution plant write off;

– Jackson Energy's failure to secure Commission approval of loans made under the East Kentucky Marketing Loan program;

– Jackson Energy's failure to secure Commission approval of the guarantee of a line of credit for Service Plus;

– Jackson Energy utilizing rate schedules that have not been approved by the Commission;

– Jackson Energy not applying authorized rates nor complying with the rules and regulations contained in its approved tariffs;

– Jackson Energy's failure to properly account for new construction, its current depreciation study, and its apparent view that such departures from prescribed accounting treatment were acceptable; and

– Jackson Energy personnel's inability to answer questions during the public hearing relating to their respective areas of responsibility.

Based on these concerns, the Commission finds that Jackson Energy should be a candidate for a focused management audit, pursuant to KRS 278.255. The Commission believes undertaking such an audit will result in benefits to both the management and the member/consumers of Jackson Energy. The Commission will instruct its Staff to initiate this focused management audit in the near future.

SUMMARY

The Commission, after consideration of the evidence of record and being otherwise sufficiently advised, finds that:

1. The rates set forth in Appendix A are the fair, just, and reasonable rates for Jackson Energy to charge for service rendered on and after the date of this Order.

2. The rate of return and TIER granted herein are fair, just, and reasonable and will provide for Jackson Energy's financial obligations.

3. The rates proposed by Jackson Energy would produce revenue in excess of that found reasonable herein and should be denied.

IT IS THEREFORE ORDERED that:

1. The rates in Appendix A are approved for service rendered by Jackson Energy on and after the date of this Order.

2. The rates proposed by Jackson Energy are denied.

3. Jackson Energy shall file, within 30 days of the date of this Order, its revised tariff sheets setting out the rates approved herein.

4. Jackson Energy shall file, within 10 days of the date of this Order, its request for approval of the terms and conditions other than rates, for Rate Schedule 22. No additional customers shall be offered service under Rate Schedule 22 prior to Commission approval.

5. Jackson Energy shall record the accounting entries shown in Appendix B of this Order concerning the 1997 distribution plant write off.

6. The depreciation rates proposed by Jackson Energy are denied.

7. The depreciation rates proposed by the AG are approved. Jackson Energy shall begin using these rates as of the date of this Order.

8. Jackson Energy shall undertake and complete a new depreciation study no later than May 2006.

9. Jackson Energy's request to eliminate the requirement in the Settlement Agreement adopted in Case No. 93-088 to use all margins in excess of 2.00X TIER to retire capital credits to members is approved.

10. As a supplement to its Annual Reports for 2002, 2003, and 2004, Jackson Energy shall file a status report addressing its compliance with Board Policy No. B200. The status reports shall be prepared as described in this Order.

11. As a supplement to its Annual Report for 2002, Jackson Energy shall file its adopted capital credit rotation program.

12. Within 30 days of the date of this Order, Jackson Energy shall file its application seeking Commission approval of the line of credit guarantee Jackson Energy established for Service Plus.

13. Within 6 months of the date of this Order, Jackson Energy shall submit a report showing its conversion of the distribution plant accumulated depreciation balances from the functional level to the account level. The report shall include all assumptions and rationale used to develop the account level balances.

Done at Frankfort, Kentucky, this 21st day of May, 2001.

By the Commission

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2000-373 DATED MAY 21, 2001

The following rates and charges are prescribed for the customers in the area served by Jackson Energy 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 effective date of this Order.

RATE 01
SPECIAL DUAL FUEL TARIFF

Monthly Rate:

Customer Charge	$1.95
Energy Charge	$0.06199

RATE 10
RESIDENTIAL FARM AND NON-FARM

Monthly Rate:

Customer Charge	$8.25
Energy Charge	$0.06199

RATE 11
RESIDENTIAL, FARM AND NON-FARM OFF-PEAK RETAIL MARKETING RATE

Monthly Rate:

Customer Charge	$0.00
Energy Charge	$0.03719

RATE 12
RESIDENTIAL SERVICE TARIFF-TIME OF DAY SERVICE

Monthly Rate:

Customer Charge	$11.15
On-Peak Energy Charge	$0.08089
Off-Peak Energy Charge	$0.04334

RATE 20
COMMERCIAL, SMALL POWER AND THREE-PHASE FARM SERVICE

Monthly Rate:

Customer Charge	$10.00
Energy Charge	$0.06159

RATE 21
COMMERCIAL, SMALL POWER AND THREE-PHASE FARM SERVICE-TIME OF DAY SERVICE

Monthly Rate:

Customer Charge	$10.13
On-Peak Energy	$0.08334
Off-Peak Energy	$0.03720

RATE 22
COMMERCIAL, SMALL POWER AND THREE-PHASE FARM SERVICE OFF-PEAK RETAIL MARKETING RATE

Monthly Rate:

Customer Charge	$0.00
Energy Charge	$.03720

RATE 30
LARGE POWER SERVICE LESS THAN 50 KW

Monthly Rate:

Customer Charge	$21.75
Demand Charge	$5.22
Energy Charge	$0.05490

RATE 33
WATER PUMPING SERVICE

Monthly Rate:

Customer Charge	$15.25
Energy Charge	$0.04965

RATE 34
WATER PUMPING SERVICE-TIME OF DAY SERVICE

Monthly Rate:

Customer Charge	$17.60
On Peak Energy Charge	$0.06223
Off-Peak-Energy Charge	$0.03819

RATE 40
LARGE POWER MORE THAN 50 KW BUT LESS THAN 275 KW

Monthly Rate:

Customer Charge	$17.90
Demand Charge	$4.84
Energy Charge	$0.04589

RATE 43
LARGE POWER RATE-OVER 275MW

Monthly Rate:

Customer Charge	$31.82
Demand Charge	$4.84
Energy Charge	$0.04241

RATE 46
LARGE POWER RATE-500 KW AND OVER

Monthly Rate:

Customer Charge	$960.00
Demand Charge	$5.39
Energy Charge	$0.02811

RATE 47
LARGE POWER RATE-500 KW TO 4,999KW

Monthly Rate:

Customer Charge	$960.00
Demand Charge	$5.39
Demand Charge	$7.82
Energy Charge	$.03008

RATE 48
LARGE POWER RATE-5,000 KW TO 9,999 KW

Monthly Rate:

Customer Charge	$1,069.00
Demand Charge per kW Contract Demand	$5.39
Demand Charge per kW For Billing Demand In Excess of Contract Demand	$7.82
Energy Charge	$.02275

RATE 49
LARGE POWER RATE-10,000 KW AND OVER

Monthly Rate:

Customer Charge	$1,069.00
Demand Charge per kW Contract Demand	$5.39
Demand Charge per kW For Billing Demand In Excess of Contract Demand	$7.82
Energy Charge	$.02250

RATE 50

SCHOOLS, CHURCHES, AND COMMUNITY HALLS

Monthly Rate:

Customer Charge	$9.75
Energy Charge	$0.06485

RATE 52
ALL ELECTRIC SCHOOLS

Monthly Rate:

Customer Charge	$40.00
Energy Charge	$0.05200

RATE 60
SCHOOLS, CHURCHES AND COMMUNITY HALLS

Monthly Rate:

Customer Charge	$9.65
Energy Charge	$.06490

RATE 65
STREET LIGHTING SERVICE

Monthly Rate:

4,000 Lumens	$9.69
5,800 Lumens	$8.92
7,000 Lumens	$6.87
9,500 Lumens	$6.87
22,000 Lumens	$12.91
27,500 Lumens	$9.20

RATE SL
SECURITY LIGHTING

Monthly Rate:

4,000 Lumens	$9.55
5,800 Lumens	$8.77
7,000 Lumens	$6.78
9,500 Lumens	$7.87
22,000 Lumens	$8.98
27,500 Lumens-Cobra	$9.94
27,500 Lumens	$11.20
50,000 Lumens	$12.31
175 Watt-Alcorn	$13.42
175 Watt-Colonial	$6.75
400 Watt	$12.70
1,000 Watt	$9.05

NON-RECURRING CHARGES

After-Hours Reconnects	$85.00

CATV ATTACHMENTS

2 Party Attachments	$5.52
3 Party Attachments	$4.79
Anchor Attachments, 2 Party	$7.86
Anchor Attachments, 3 Party	$5.19
Ground Attachments, 2 Party	$0.29
Ground Attachments, 3 Party	$0.18

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2000-373 DATED MAY 21, 2001

Accounting Entries Concerning the 1997 Distribution Plant Write Off

As discussed in the Order, Jackson Energy is being required to reverse the accounting entries made in 1997 to write off certain components of its distribution plant. The entries shown below shall be recorded on the books of Jackson Energy to comply with the Commission's Order.

1. Entry to reverse the 1997 write off of distribution plant.

Account No. 364 – Poles, Towers & Fixtures	2,952,258	
Account No. 365 – Overhead Conductors & Devices	4,286,073	
Account No. 368 – Transformers	3,579,589	
Account No. 369 – Services	2,088,769	
Account No. 370 – Meters	317,041	
Account No. 371 – Installations on Consumers Premises	1,311,863	
Account No. 108.6 – Accum. Depreciation, Distribution		14,535,593

2. Entry to establish deferred debit and adjust accumulated depreciation.

Account No. 186.x – Miscellaneous Deferred Debits	12,004,946	
Account No. 108.6 – Accum. Depreciation, Distribution	2,530,647	
Account No. 364 – Poles, Towers & Fixtures		2,952,258
Account No. 365 – Overhead Conductors & Devices		4,286,073
Account No. 368 – Transformers		3,579,589
Account No. 369 – Services		2,088,769
Account No. 370 – Meters		317,041
Account No. 371 – Installations on Consumers Premises		1,311,863

Jackson Energy shall establish a separate subaccount in Account No. 186 for this transaction.

3. Entry to recognize first year amortization of deferred debit.

Account No. 407 – Amortization of Property Losses, Unrecovered Plant and Recovery Study Costs	470,782	
Account No. 186.x – Miscellaneous Deferred Debits		470,782

The Miscellaneous Deferred Debit is to be amortized over 25.5 years (12,004,946 divided by 25.5 equals 470,782). The unamortized balance of the Miscellaneous Deferred Debit shall not be included in Jackson Energy's rate base.