

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF BLUE GRASS ENERGY )  
COOPERATIVE CORPORATION TO ADJUST ) CASE NO. 2000-414  
ITS RATES )

O R D E R

On August 29, 2000, Blue Grass Energy Cooperative Corporation (“Blue Grass”) tendered for filing an application for authority to adjust its charges for cable television (“CATV”) pole attachments and its miscellaneous service charges to be effective with service rendered on and after October 1, 2000.<sup>1</sup> The application as tendered was deficient, but the deficiencies were cured on October 6, 2000 and the application was accepted for filing on that date. Pursuant to KRS 278.180(1), no utility may change any rate without 30 days’ notice to the Commission. As a result, the earliest date on which Blue Grass’s proposed rates could become effective was November 5, 2000. The Commission suspended the effective date of the new rates for 5 months through April 4, 2001.

Intervening in this proceeding were the Attorney General of the Commonwealth of Kentucky (“AG”) and the Kentucky Cable Telecommunications Association (“KCTA”). A procedural schedule was established for the case which provided for two rounds of discovery, intervenor testimony, a public hearing, and the opportunity to file briefs.

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<sup>1</sup> Blue Grass was formed on December 12, 1997 by the merger of Blue Grass Rural Electric Cooperative Corporation (“Blue Grass RECC”) and Fox Creek Rural Electric Cooperative Corporation (“Fox Creek RECC”).

The public hearing was held on January 11, 2001. A unanimous Settlement Agreement was filed which resolved the AG's objections to the proposed miscellaneous service charges. The Settlement Agreement provides that for 6 months Blue Grass will not accept a check as payment from any customer who has written two cold checks to the utility within the past 6 months, rather than within the past 12 months as originally proposed.

Blue Grass then filed on January 17, 2001 a revised tariff to reflect the terms of the Settlement Agreement. The Commission finds this revised tariff to be reasonable and it will be approved. There were no objections to any of the other proposed changes in miscellaneous charges. This effectively removed the issue of miscellaneous charges from the hearing, leaving only the issue of an appropriate methodology to calculate CATV pole attachment rates. Blue Grass and KCTA presented evidence and filed post-hearing briefs to support their respective methodologies to calculate Blue Grass's CATV charges.

#### CATV ISSUE

The Commission first asserted jurisdiction over CATV charges in 1982 in Administrative Case No. 251 ("Admin. 251").<sup>2</sup> Parties to that proceeding included KCTA as well as telecommunication and electric utilities regulated by the Commission that owned utility poles that could be used by cable television providers. In the final decision in that proceeding the Commission exercised its jurisdiction by establishing a uniform methodology for calculating CATV charges.

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<sup>2</sup> Administrative Case No. 251, The Adoption of a Standard Methodology for Establishing Rates for CATV Pole Attachments, Order dated September 17, 1982.

The only contested issue remaining here involves the appropriate cost of money, or rate of return, to be included in the carrying-charge component of the formula for calculating Blue Grass's CATV charges. This relates directly to the uniform methodology established by the Commission in Admin. 251. Two of the items in the formula established in Admin. 251 are (1) the average cost of a utility pole and (2) a carrying charge that includes a cost-of-money component. The Commission also determined in that proceeding that the cost-of-money component should be the rate of return on investment allowed in the utility's last rate case.

In its application Blue Grass included the average gross pole costs for two-party and three-party poles in the formula as the average cost of utility poles, and also included an overall return on net investment of 9.20 percent. According to Blue Grass, the use of gross plant for the cost of poles, together with the use of the rate of return on net investment allowed in its most recent rate case, is consistent with the uniform methodology for the calculation of CATV charges established by the Commission in Admin. 251.

At the hearing, Blue Grass acknowledged that 9.20 percent was actually the overall return granted to its merger partner, Fox Creek RECC, in its last general rate case, Case No. 7589.<sup>3</sup> However, Blue Grass RECC filed a subsequent rate case, Case No. 8378, in which it was allowed a return on net investment of 10.73 percent. No general rate case has been filed since the merger. Therefore, consistent with the Admin. 251 Order, we find that 10.73 percent, the overall rate of return from Blue Grass RECC's most recent general rate case, should be used for the purpose of calculating its CATV charges.

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<sup>3</sup> There has been no general rate case since the merger.

KCTA takes issue with Blue Grass's proposal to apply a carrying charge (that includes a return on net investment) to pole cost amounts that are based on gross plant, arguing that such a proposal is illogical as well as contrary to established rate-making principles used by this Commission and other regulatory commissions across the United States. KCTA maintains that the Admin. 251 Order does not support applying a return based on net investment to pole cost amounts based on gross plant investment.

KCTA states that the return component of the carrying charge should be applied to pole costs based on Blue Grass's net plant investment in utility poles. KCTA offers two methods by which this can be accomplished. The first method would adjust the "gross" average pole cost amounts used by Blue Grass to amounts that reflect "net" average pole costs after recognizing accumulated depreciation on utility poles. The second method would adjust the rate of return to reflect the ratio of Blue Grass's net plant investment recorded in Account 364, Poles, Towers, and Fixtures, to its gross plant investment in Account 364 and then apply the resulting "net-to-gross ratio" to the "gross" average pole cost amounts. For purposes of this proceeding, KCTA used the second method.

The Admin. 251 Order includes no specific discussion on the issue of "gross vs. net" plant and Blue Grass has interpreted the Order to mean that gross plant should be used in the calculation of CATV charges. However, the Order's silence on this issue simply indicates that there was no controversy on the appropriate methodology to be used. It is today, and has for decades been, a basic rate-making principle in Kentucky that a utility's rate of return is determined based on net rather than gross investment.

Regardless of any uncertainty as to the intent in Admin. 251, basic rate-making involves establishing, directly or indirectly, an overall rate of return based on net investment

rate base. That is how the overall rate of return of 9.20 percent proposed by Blue Grass was developed in Fox Creek RECC's last general rate case, as well as how the 10.73 percent overall rate of return was developed in Blue Grass RECC's last general rate case. We can find no authoritative support for applying a utility's investment in gross plant to a return derived from net plant.

The Commission finds that net plant - i.e., net investment in utility poles - through either of the methods suggested by KCTA should be the basis for the calculation of Blue Grass's CATV charges. Although it would be preferable to use net pole costs and the actual return from Blue Grass's most recent rate case, in this case Blue Grass's accounting records do not reflect its net pole costs. Thus, the alternative method is acceptable. This decision is consistent with the Commission's recent decision on this same issue in Case No. 2000-359.<sup>4</sup>

The CATV charges should be calculated by the methodology proposed by KCTA. A necessary input to those calculations is the balance of accumulated depreciation recorded by Blue Grass in Account 364, Poles, Towers and Fixtures. In its initial data response to KCTA, Item 9, Blue Grass indicated that the accumulated depreciation balance in Account 364 was \$4,319,491. However, in a supplemental data response to KCTA, Item 4, it stated that the accumulated depreciation balance was \$14,157,129. It was this higher number, set forth in Blue Grass's supplemental response, that KCTA incorporated into its testimony and proposed rates. In an effort to clarify this number, Staff issued a data request to Blue Grass on March 20, 2001. In response to that request, Blue Grass stated that its original

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<sup>4</sup> Case No. 2000-359, Application of Cumberland Valley Electric, Inc. to Adjust its Rates, Order dated February 6, 2001.

response of \$4,319,491 was the correct balance for accumulated depreciation in Account 364.

KCTA filed on March 29, 2001 an objection to Blue Grass's efforts to reaffirm its original data response. KCTA argues that since the procedural schedule provides no further opportunity for discovery or cross-examination, it has no ability to verify this latest response. The Commission recognizes that accurately determining the balance of accumulated depreciation in Account 364 is essential to a proper calculation of CATV charges. Under the circumstances of this case, the Commission will defer its calculation of reasonable CATV charges until KCTA has had an opportunity to verify Blue Grass's reaffirmation of \$4,319,491 as the accumulated depreciation balance in Account 364.

IT IS THEREFORE ORDERED that:

1. The miscellaneous service charges set forth in Appendix A to this Order, including the revised proposed miscellaneous charges set forth in Tariff Sheet No. 12 filed on January 17, 2001, are approved for service by Blue Grass on and after April 5, 2001.
2. Blue Grass shall file with the Commission, within 20 days from the date of this Order, revised tariff sheets setting out the rates and charges approved herein.
3. Any request for information to Blue Grass shall be filed by April 17, 2001, and Blue Grass shall respond to those requests by April 25, 2001.
4. KCTA shall file by May 2, 2001 a statement of position and proposed dates for any additional procedural steps it believes will be needed to verify the balance of accumulated depreciation in Account 364.

Done at Frankfort, Kentucky, this 4<sup>th</sup> day of April, 2001.

By the Commission

ATTEST:

  
Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2000-414 DATED APRIL 4, 2001

The following rates and charges are prescribed for the customers in the area served by Blue Grass Energy Cooperative Corporation. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of the Order.

MISCELLANEOUS CHARGES

Return Check	\$20.00
Meter Reading	\$25.00
Collection	\$25.00
Connect and reconnect	\$25.00
Meter Tests	\$35.00
Overtime	\$50.00