

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF JACKSON PURCHASE	)	CASE NO.
ENERGY CORPORATION FOR AN ADJUSTMENT	)	2000-527
IN DEPRECIATION RATES	)	

O R D E R

On November 3, 2000, Jackson Purchase Energy Corporation (“Jackson Purchase”) filed an application to adjust its depreciation rates and schedules. On December 21, 2000, the Attorney General was granted leave to intervene as a party to these proceedings and on February 27, 2001 the parties met with Commission Staff for an informal conference. At the conference the parties negotiated a settlement agreement that resolved all outstanding issues in this proceeding. On April 19, 2001, the parties filed a joint motion for a final Order incorporating the terms of their settlement agreement, which they recited in the motion as follows:

1. Beginning January 1, 2001 Jackson Purchase will be permitted to reinstate its depreciation rates in effect prior to its implementation of rates authorized by the Commission’s May 6, 1998 order in Case No. 97-224.
2. The due date for the depreciation study ordered in Case No. 97-224, will be extended from May 6, 2001 to December 31, 2002 to allow Jackson Purchase an opportunity to have the study performed by Rural Utilities Service (“RUS”).
3. Jackson Purchase will notify the Commission and the Attorney General when the study is initiated, but, in no case, will it be initiated later than April 1, 2002.
4. If Jackson Purchase is unable to persuade RUS to initiate a depreciation study by April 1, 2002, it will contract with an independent consultant to begin the study by that date.

5. Upon completion, Jackson Purchase will submit the depreciation study for the Commission's approval to fulfill its requirements under Case No. 97-224.

6. Jackson Purchase will continue the capital credit rotation program required by the Commission's order in Case 97-224 as modified here. Upon the implementation of this agreement, Jackson Purchase shall exclude expenses that the Commission has historically disallowed from *[sic]* rate-making purposes for *[sic]* operating costs in the calculation of its expenses.

7. These terms accurately reflect the agreement reached by the parties, are in the public interest and result in rates which are fair, just and reasonable.

Jackson Purchase finances its capital improvement projects with mortgage loans from the RUS. During 1998 and 1999 the utility's earnings declined to a point where they were below the minimum earning level that RUS requires under the terms of its mortgages. The change in depreciation rates proposed by the parties will result in a reduction to depreciation expense of \$766,005 based on plant balances at December 31, 2000. The reduction in depreciation expenses will increase earnings to the levels required by RUS. The parties agree that as an alternative to a service rate increase the reduction in depreciation rates is a preferable temporary solution to the deficient earnings. Since Jackson Purchase has a capital credit rotation requirement, any excess earnings that may result from the reduction in depreciation rates will be returned to customers through capital credit retirements.

In reviewing the settlement terms proposed by the parties, the Commission has considered the circumstances surrounding the filing of the application, the interests of the ratepayers, and the need to protect service rates that have been deemed to be fair, just and reasonable. Based on its review, the Commission finds that the settlement

terms are in accordance with the law, do not violate any regulatory principle, result in a reasonable resolution of the case, and are in the public interest.

IT IS THEREFORE ORDERED that:

1. The settlement terms and conditions proposed by the parties as set forth above are adopted and approved.

2. Jackson Purchase shall strictly comply with the settlement terms and conditions adopted and approved by this Order.

Done at Frankfort, Kentucky, this 30<sup>th</sup> day of May, 2001.

By the Commission

ATTEST:

  
Executive Director