COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF TAYLOR COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION FOR AN ADJUSTMENT OF RATES	)))	CASE NO. 2012-00023

ORDER

On August 16, 2012, Taylor County Rural Electric Cooperative Corporation ("Taylor County") filed an application requesting approval to increase its rates for retail electric service by approximately $1.1 million, a 2.6 percent increase over its normalized revenues. Taylor County's most recent base-rate increase was in 1997.[1] A review of the application revealed that it did not meet the minimum filing requirements set forth in 807 KAR 5:001 Sections 10(4), 10(7)(d) and 10(7)(e); therefore, a notice of filing deficiencies was issued. On August 29, 2012 and August 30, 2012, Taylor County filed information to cure the deficiencies, and the application was accepted as filed on August 30, 2012.

KRS 278.180(1) requires 30-days' notice of a change in rates. As a result of the filing deficiencies, Taylor County proposed that its revised rates become effective October 1, 2012, a date more than 30 days from the date it cured its deficiencies. Finding that an investigation would be necessary to determine the reasonableness of Taylor County's proposed increase, the Commission suspended the rates for five months, up to and including February 28, 2013, pursuant to KRS 278.190(2).

[1] Case No. 97-124, In the Matter of Application of Taylor County Rural Electric Cooperative Corporation for Adjustment of Rates (Ky. PSC Nov. 4, 1997).

BACKGROUND

Taylor County is a consumer-owned rural electric cooperative organized pursuant to KRS Chapter 279. It is engaged in the sale of electric energy to approximately 25,600 member customers in Adair, Casey, Cumberland, Green, Hart, Marion, Metcalfe, Russell and Taylor counties. It is one of 16 member distribution cooperatives that own and receive wholesale power from East Kentucky Power Cooperative, Inc. ("East Kentucky").

On September 12, 2012, a procedural order was issued that provided for discovery, intervenor testimony, and rebuttal testimony. There were no intervenors in this matter. The Commission held a public hearing on the proposed rate adjustment on January 29, 2013. No members of the public attended the hearing and the Commission received no written comments on the proposed increase. The information requested at the public hearing was filed by Taylor County on February 8, 2013, and the case now stands submitted for a decision.

TEST PERIOD

Taylor County proposed the 12-month period ending November 30, 2011 as the test period to determine the reasonableness of its proposed rates. The Commission finds the use of this test period to be reasonable. In using a historic test period, the Commission has given full consideration to appropriate known and measurable changes.

VALUATION

Rate Base

Taylor County proposed a net investment rate base of $52,325,723 based on test-year-end plant in service and construction work in progress, the 13-month average balances for materials and supplies and prepayments, plus a cash working capital allowance, minus the adjusted accumulated depreciation balance and the test-year-end level of customer advances for construction.[2]

The Commission concurs with Taylor County's proposed rate base with the exception that working capital has been adjusted to reflect the pro forma adjustments to operation and maintenance expenses found reasonable herein. With this adjustment, Taylor County's net investment rate base for rate-making purposes is as follows:

Utility Plant in Service	$ 70,275,991
Construction in Progress	430,182
Total Utility Plant	$ 70,706,173
ADD:	
Materials and Supplies	$ 737,582
Prepayments	171,868
Working Capital	805,322
Subtotal	$ 1,714,772
DEDUCT:	
Accumulated Depreciation	$ 19,253,957
Customer Advances for Construction	905,141
Subtotal	$ 20,159,098
NET INVESTMENT RATE BASE	$ 52,261,847

Capitalization and Capital Structure

The Commission finds that Taylor County's capitalization at test-year-end for rate-making purposes was $50,679,645[3] and consisted of $28,038,735 in equity[4] and $22,640,910 in long-term debt. Using this capital structure, Taylor County's year-end equity to total capitalization ratio was 55 percent.

---

[2] Application, Exhibit K, page 2 of 7.

[3] *Id.* page 7 of 7.

[4] Generation & Transmission Capital Credits ("G&T Capital Credits") are typically excluded by the Commission in calculating a distribution cooperative's equity and capital structure. At test year-end, Taylor County had a balance of $13,660,306 in G&T Capital Credits.

REVENUES AND EXPENSES

Taylor County proposed 18 adjustments to revenues and expenses to reflect current and expected operating conditions. The Commission finds that 11 of the adjustments proposed by Taylor County are reasonable and should be accepted. Those adjustments are shown in the following table:

Table 1: Taylor County's Proposed Adjustments		
Descriptions		Adjustments
Payroll – Salaries	$	53,424
Payroll Taxes	$	4,301
Normalize Property Taxes	$	12,233
FAS 106 Expense	$	238,035
Retirement 401(k) Plan	$	4,947
Health Insurance Expense	$	41,780
Professional Fees	$	2,754
G & T Capital Credits	$	(1,383,363)
Normalize Nonrecurring Revenues	$	14,100
Normalize Revenues	$	(2,420,970)
Test-Year-End Customer Adjustment	$	22,104

The Commission has modified the remaining proposed adjustments and made further adjustments to the test year revenues and expenses as discussed herein.

Unrecovered Fuel Adjustment Clause Expense

Taylor County proposed an adjustment to increase revenues by $454,515 due to what was identified as unrecovered fuel adjustment clause expense ("FAC Expense Adjustment"). Taylor County and East Kentucky each have a fuel adjustment clause ("FAC") in place as set forth by 807 KAR 5:056. Taylor County states that East Kentucky "rolled the fuel into the base rates during June 2011, which Taylor County recognized in July, 2011" and that this "resulted in a large credit to customers."[5] Taylor County goes on to state that it "did not recognize this credit from East Kentucky, which

[5] Application, Exhibit 16, page 3 of 3.

resulted in a deficit for Taylor County. The over/under recovery mechanism for fuel adjustment will not recognize this deficit."[6] Taylor County provided the calculation of the $454,515 adjustment in Exhibit 16 of its application.

During the discovery phase and at the public hearing, Taylor County confirmed that Exhibit 16 reflects a one-month lag between the FAC amounts it is billed or credited by East Kentucky and the FAC amounts it bills or credits to its customers. For example, in order to compare amounts related to the same FAC factor in Exhibit 16, the $557,018 credit to Taylor County's customers shown for July 2012 should be compared to the $400,365 credit received from East Kentucky in June rather than the $12,316 credit in July shown in Exhibit 16.[7] In response to a post-hearing data request, Taylor County filed a revised Exhibit 16 with the one-month lag removed.[8] The revised schedule shows an over-recovery for the test period of $41,096.

The FAC mechanism for an East Kentucky member cooperative works as follows:

1) The member cooperative starts with the dollar amount billed, or credited by, East Kentucky for the FAC;

2) The dollar amount from 1 above is adjusted by the dollar amount of the under- or over-recovery which resulted from the billing of a previous FAC factor;

3) The member cooperative's FAC factor is calculated based on the amount obtained from 2 above, and finally;

---

[6] *Id.*

[7] Response to Item 23 a. and b. of Commission Staff's Third Request for Information ("Staff's Third Request") and Hearing at 10:50:54.

[8] Response to Item 8 of the Post-Hearing Data Request.

4) The member cooperative's FAC factor is adjusted by its 12-month rolling line loss.

Although there is a lag in the recovery of any under-recovered fuel expenses and the refund of any over-recovered fuel expenses, the Commission finds, as it has done in other cases,[9] that the FAC mechanism works as intended and that, over time, the mechanism fully recovers FAC fuel expenses. Therefore, the Commission finds that Taylor County's FAC Expense Adjustment should be denied.

Depreciation

Taylor County depreciates all distribution plant using a composite rate of three percent, which has been in effect since October 1986.[10] Taylor County proposed an adjustment to increase test-year depreciation expense by $458,113, from $2,075,360 to $2,533,473. The proposed adjustment was supported by a depreciation study included with the application which was the first depreciation study ever conducted for Taylor County.[11] The depreciation study used survivor curves to determine average service lives, average age, and remaining service lives of each plant account group. The study developed depreciation rates using both the whole-life method and the remaining life method. The depreciation rates proposed by Taylor County were based on the whole-life method.[12]

---

[9] Case No. 90-041, Adjustment of Gas and Electric Rates of The Union Light, Heat and Power Company (Ky. PSC Oct. 2, 1990); the Order denying ULH&P's request for rehearing on the issue of whether the FAC was fully recovering was dated 11/21/1990; and Case No. 90-158, Adjustment of Gas and Electric Rates of Louisville Gas and Electric Company (Ky. PSC Dec. 21, 1990); the Order denying LG&E's request for rehearing on the issue of whether the FAC was fully recovering was dated 1/29/1991.

[10] Case No. 9536, Application of Taylor County Rural Electric Cooperative Corporation for an Adjustment of Rates (Ky. PSC Oct. 30, 1986).

[11] Application, Exhibit 21.

[12] Application, Exhibit 21, bottom of page 9.

In response to a Commission Staff request for information, Taylor County provided a revised schedule that increased the pro forma depreciation expense adjustment to $601,421, an increase of $143,308.[13] In its application, Taylor County failed to include Account 371, Installations on Consumer Premises, in the calculation of its proposed depreciation expense adjustment.

Taylor County's depreciation rates and procedures follow Rural Utilities Service ("RUS") Bulletin 183-1,[14] which prescribes ranges of whole life depreciation rates for distribution assets.[15] RUS recommends that borrowers whose systems are operated under "normal" conditions choose rates near the middle of the ranges, while only borrowers operating under "extreme" conditions select rates toward the outer limits of the ranges.[16] Rates outside these ranges must be approved by RUS except when they are required by a regulator. RUS must be informed when a regulator requires alternative rates.[17]

Based on the results of the depreciation study, Taylor County has proposed rates that, for some account groups, fall outside the recommended RUS ranges. The following table compares Taylor County's current and proposed depreciation rates to RUS Bulletin 183-1's recommended depreciation ranges.

---

[13] Response to Commission Staff's Second Request for Information ("Staff's Second Request"), Item 30.d

[14] Application, Exhibit 3.

[15] RUS Bulletin 183-1, Page 1, I.

[16] RUS Bulletin 183-1, Page 9, 3.

[17] RUS Bulletin 183-1, Page 1, I.

Account		Taylor County Current	Proposed	RUS Range
362.00	Station Equipment	3.00%	6.67%	3.00 - 4.00%
364.00	Poles, Towers & Fixtures	3.00%	3.54%	3.00 - 4.00%
365.00	Overhead Conductors & Devices	3.00%	2.76%	2.30 - 2.80%
366.00	Underground Conduit	3.00%	2.38%	2.40 - 2.90%
367.00	Underground Conductors & Devices	3.00%	4.65%	2.40 - 2.90%
368.00	Line Transformers	3.00%	2.98%	2.60 - 3.10%
369.00	Services	3.00%	3.86%	3.10 - 3.60%
370.00	Meters	3.00%	6.67%	2.90 - 3.40%
371.00	Inst. on Customer Premises	3.00%	7.50%	3.90 - 4.40%
373.00	Street Lights	3.00%	6.00%	3.90 - 4.40%

As this is the first depreciation study ever performed by Taylor County, the Commission concludes that an adjustment of depreciation rates is warranted. However, for the account groups in the following table, for which the proposed rates are outside of the upper end of the RUS range, we find that Taylor County has not demonstrated the existence of "extreme" conditions that would support such rates. Recognizing the time that has transpired since Taylor County's last depreciation rate adjustment and taking into account the results of its depreciation study, for the following accounts, the Commission will approve increased depreciation rates for Taylor County based on the upper end of the RUS recommended ranges of rates:

362.00	Station Equipment	4.00%
367.00	Underground Conductors & Devices	2.90%
369.00	Services	3.60%
371.00	Installations on Customer Premises	4.40%
373.00	Street Lights	4.40%

Similarly, although the rate difference is minimal, we will increase Taylor County's proposed rate of 2.38 percent for Account 366.00, Underground Conduit, which is below the lower end of the RUS recommended rate, to the rate at the lower end of the RUS recommended range, which is 2.40 percent.

The depreciation rate of 6.67 percent proposed by Taylor County for meters was developed separately from its depreciation study. Recognizing the changes in technology by which electric power is distributed, we agree that the useful service life of the Automated Metering Infrastructure ("AMI") meter system should not exceed 15 years. The Commission therefore finds that a 6.67 percent depreciation rate is appropriate. This is consistent with the depreciation rates approved recently for other electric cooperatives for AMI meters.

The Commission recognizes that Taylor County's original depreciation adjustment was understated by $143,308 due to the omission from the calculation of Account 371, Installations on Consumer Premises, and that this amount should be included in Taylor County's adjusted test-year depreciation expense. After applying the revised depreciation rates indicated above, we find that the test-year depreciation expense should be increased by $518,785.

Amortization of Loss on Disposal of Mechanical Meters

In case 2008-00376[18] the Commission authorized Taylor County to establish a regulatory asset for the write-off of the retired meters and authorized Taylor County to amortize the regulatory asset over five years. During the test year, Taylor County recorded amortization expense of $182,451 for the loss on meters retired as a result of installing an AMI system which Taylor County completed in 2009. Taylor County indicated that the unamortized balance of the regulatory asset as of February 28, 2013, would be $207,778, and that it would be fully amortized April 30, 2014.[19] Consistent with Commission practice in rate proceedings involving amounts that remain to be fully

[18] Case No. 2008-00376, Filing of Taylor County Rural Electric Cooperative Corporation Requesting Approval of Deferred Plan for Retiring Meters (Ky. PSC Dec. 9, 2008).

[19] Response to Item 10 of the Post-Hearing Data Request.

amortized, the Commission will extend Taylor County's amortization period three years from the date of this order. Given that slightly more than one year remains of the originally approved amortization period, the existing expense will not be an ongoing annual expense. Hence, it would not be equitable to ratepayers to include the full amount of the current annual amortization expense in rates. To provide a more equitable outcome for ratepayers, the Commission will require that the remaining balance be amortized over three years, which reduces Taylor County's annual amortization expense by $113,192 to $69,259.

Interest on Long-Term Debt

Taylor County proposed to reduce test-year long-term debt interest expense by $28,714. In response to a Commission Staff request for information, Taylor County updated its current long-term debt interest expense to reflect the interest rates currently in effect.[20] Based on this update, the Commission finds that long-term debt interest expense should be further reduced by $8,786, resulting in a total reduction to test-year long-term debt interest expense of $37,500.

Director's Expenses

During the test year, Taylor County paid its seven directors' fees and expenses totaling $171,691. Taylor County proposed adjustments to reduce this expense by $106,101 to exclude certain expenses for rate-making purposes. The Commission agrees with the exclusions identified by Taylor County. In response to a Commission Staff request for information, Taylor County confirmed that $1,200 of per diem expense removed for rate-making purposes was misclassified and should have been classified

[20] Response to Staff's Second Request, Item 32, and Post-Hearing Data Request, Item 9.

as Other Board Meeting fees.[21] The Commission agrees that the per diem adjustment was overstated by $1,200, and that this amount should be deducted from Taylor County's proposed adjustment to test-year directors' fees and expenses. This results in a net reduction of $104,901 to directors' fees and expenses.

Miscellaneous Expenses

Taylor County proposed to exclude $19,994 in miscellaneous expenses for items the Commission normally has not included for rate-making purposes. The Commission agrees with the exclusions identified by Taylor County. The Commission has also identified three additional adjustments to miscellaneous expenses. As a result of Taylor County's response to Commission Staff's request for information, the Commission has determined that the payment of $1,982 to SRW Environmental is a non-recurring expense and should be removed for rate-making purposes.[22] Accordingly, Taylor County's miscellaneous expenses have been reduced by $1,982.

Included in test-year miscellaneous expenses was $1,095 for hotel rooms for five directors and the general manager to attend the Kentucky Association of Electric Cooperatives ("KAEC") annual meeting in Louisville, Ky. Past Commission practice has been to allow expenses only for the board's designated representative to KAEC to attend such meetings. Accordingly we will remove expenses for four directors for rate-making purposes. We have determined that it is appropriate for Taylor County's general manager to attend this meeting and will allow those expenses. The Commission has prorated the total expense for six participants and will reduce miscellaneous expenses $730 for four directors ($1,095 / 6 attendees x 4 directors).

[21] Response to Staff's Second Request, Item 35.

[22] Response to Staff's Second Request, Item 37. I, and Response to Staff's Third Request, Item 20.

Miscellaneous expenses also included travel expenses incurred by Taylor County's board of directors' members for attendance at National Rural Electric Cooperative Association ("NRECA") conferences in San Antonio, Texas and Orlando, Florida. Based on its response to Commission Staff's request for information, Taylor County identified $11,737 of expenses incurred for the NRECA conference in Orlando.[23] However, the explanation provided in response to discovery regarding the agenda and topics covered in Orlando did not fully explain the topics covered and how it would benefit Taylor County for five directors to attend.[24] Accordingly the Commission will remove $11,737 of miscellaneous expenses.

Therefore, in addition to Taylor County's proposed adjustment of $19,994, the Commission will reduce miscellaneous expenses an additional $14,449 for a total adjustment of $34,443.

Rate Case Expense

Taylor County proposed estimated rate case expenses of $90,000 based on the level of costs incurred in other rate cases before the Commission. Taylor County proposed that its estimated rate case expenses be amortized over a three-year period, consistent with Commission treatment in previous rate cases. This resulted in an expense adjustment of $30,000 for rate-making purposes.[25]

The Commission's longstanding practice is to allow recovery of rate case expenses based on the utility's most recent actual costs, typically through the date of the hearing. Taylor County's most recent actual expense through January 29, 2013, as

[23] Response to Staff's Third Request, Item 18.

[24] *Id.*

[25] Application, Exhibit 12.

reported in its response to the post-hearing data request, was $55,860.[26] The Commission finds that Taylor County's allowable rate case expenses should be decreased by $34,140, from $90,000 to $55,860. Amortizing this amount over three years will result in an annual expense of $18,620, which is $11,380 less than the amount proposed.

Depreciation Study Expense

Taylor County proposed an adjustment for the cost of the depreciation study performed as part of this case. Taylor County estimated the cost to be $25,000 and proposed to amortize the cost over five years, resulting in an annual expense of $5,000.[27] Per Taylor County's update of actual rate case expenses filed as a post-hearing data request on February 8, 2013, the actual cost of the depreciation study was determined to be $20,000.[28] Therefore the Commission will reduce the depreciation study adjustment to $4,000.

Purchased Power Adjustment

Taylor County proposed an adjustment of $1,562,807 to normalize the base rate portion of test-year purchased power costs. In response to a Commission Staff request for information, Taylor County provided a corrected schedule of purchased power costs that reduced the proposed adjustment by $49,567.[29] The Commission agrees that the proposed adjustment was overstated by $49,567 and that this amount should be deducted from Taylor County's proposed adjustment to test-year purchased power

---

[26] Response to Item 1 of the Post-Hearing Data Request.

[27] Application, Exhibit 13.

[28] Response to Item 1 of the Post-Hearing Data Request.

[29] Responses to Staff's Second Request, Item 41.a, and Staff's Third Request, Item 22.

costs. This results in an adjustment of $1,513,240 to the base-rate portion of purchased power costs.

PSC Assessment

Taylor County did not propose an adjustment to its PSC Assessment to reflect the effects of normalizing revenues and purchased power expense or the impact of its proposed revenue increase. The Commission has determined that an adjustment to the PSC Assessment to reflect the normalization of revenue and purchased power expense found reasonable herein is appropriate. Based on the 2012–2013 assessment rate, the adjustment results in a $3,271 increase in the PSC Assessment for the test year. The Commission has determined that an adjustment to the PSC Assessment based on the revenue increase being granted herein should also be calculated. This calculation results in an increase in the PSC Assessment Fee of $997. The total result of these adjustments is an increase of $4,268 in the PSC Assessment Fee.

Pro Forma Adjustments Summary

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

	Actual Test Period	Pro Forma Adjustments	Adjusted Test Period
Operating Revenues	$44,423,536	$(1,930,251)	$42,493,285
Operating Expenses	43,473,218	(2,105,764)	41,367,454
Net Operating Income	950,318	175,513	1,125,831
Interest on Long-Term Debt	981,289	(37,500)	943,789
Interest Expense-Other	71,220	- 0-	71,220
Other Deductions	1,647,951	(1,383,363)	264,588
NET INCOME	$ 1,545,760	$ (1,170,350)	$ 375,410

REVENUE REQUIREMENTS

The rate of return earned on Taylor County's net investment rate base established for the test year was 7.41 percent.[30] Taylor County's requested rates would result in a Times Interest Earned Ratio ("TIER") of 2.00X, excluding Generation and Transmission Capital Credits ("GTCC"), and a rate of return of 3.64 percent on its adjusted rate base of $52,325,723.[31] Taylor County proposes an increase in revenues of $1,065,777 to achieve the 2.00X TIER excluding GTCCs.[32]

Taylor County's actual TIER excluding GTCCs for the test period was 1.17X.[33] For the calendar years 2009 and 2010, Taylor County's TIERs were 4.13X and 2.70X, respectively.[34] After taking into consideration the allowable pro forma adjustments, without an increase in revenues, Taylor County would have an adjusted test-year TIER of 1.40X excluding GTCCs.

The Commission finds that the use of a 2.00X TIER is reasonable for Taylor County. In order to achieve the 2.00X TIER, Taylor County would need an increase in annual revenues of $569,376.

Based upon the pro forma adjustments found reasonable, the Commission has determined that an increase in Taylor County's revenues of $569,376 would result in a TIER of 2.00X. This additional revenue should produce net income of $943,789 and, based on the net investment rate base of $52,261,847 found reasonable herein, should result in a rate of return on rate base of 3.61 percent.

---

[30] Application, Exhibit K at 1.

[31] *Id.*

[32] *Id.* Exhibit S at 1.

[33] Application, Exhibit K at 6.

[34] *Id.*

Revenue Allocation and Rate Design

Cost of Service

Taylor County filed a fully allocated cost-of-service study ("COSS") for the purpose of determining the cost to serve each customer class and the amount of revenue to be allocated to each customer class. The COSS indicates that the Farm and Home, General Purpose Service ("GP1"), and the Residential Marketing Rate (commonly referred to an Electric Thermal Storage or ETS rate) should receive an increase. The Commission has reviewed Taylor County's COSS and finds it to be acceptable for use as a guide in allocating the revenue increase granted herein.

Taylor County proposed to allocate the increase in two steps. First, Taylor County proposed to allocate the amount of the increase unrelated to the FAC Expense, Adjustment to the Farm and Home, and General Purpose Service 1 ("GP1") classes. Because the Street Lighting ("SL") class rates are based on the GP1 energy rate and the ETS rate is 60 percent of the Farm and Home energy rate, the SL and ETS classes would also receive an increase under Taylor County's proposal. For the amount of the increase related to the FAC Expense Adjustment, Taylor County proposed that the energy charge for all classes be increased by an equal amount.

Revenue Allocation

The increase of $569,376 approved in this Order equates to an increase in base rate revenue of 1.36 percent. This is approximately 53 percent of what Taylor County requested. As discussed above, Taylor County's proposed increases to the various rate classes were based on its COSS results. The Commission has reviewed Taylor County's allocation proposal and finds it to be reasonable. However, as the Commission is not approving the FAC Expense Adjustment, there will be no increase to the energy charge of all customer classes related to this adjustment as proposed by Taylor County. In addition, as discussed below, the increases are being allocated to the customer charges of the Farm and Home and GP1 classes rather than to the energy charges; therefore, the ETS and SL classes (which are tied to the Farm and Home and GP1 energy rates, respectively) will not receive an increase. The $569,376 increase granted herein will be allocated to the Farm and Home and GP1 classes using approximately the same proportions between the two rate classes as proposed in Taylor County's application.

Rate Design

Taylor County's COSS shows that the current customer charges for the Farm and Home and GP1 classes are insufficient to recover the customer-related costs of serving each class. The following table shows the current and proposed customer charge amounts, as well as the amounts justified by the revised COSS:[35]

Customer Class	Current	Proposed	Revised COSS
Farm & Home	$ 7.94	$ 10.00	$ 18.07
GP1	$ 8.15	$ 10.00	$ 17.87

Based on the results of the COSS, the Commission accepts Taylor County's proposal that it be allowed to increase the customer charges for the Farm and Home and GP1 classes. Given that the amount of the revenue increase granted is less than that requested by Taylor County, the increase for the Farm and Home and GP1 classes can be affected by allocating the entirety of the increase to the customer charge of each

[35] Taylor County revised its COSS in response to information requests made by Commission Staff during this proceeding.

class. This results in customer charges of $9.82 for the Farm and Home class and $10.00 for the GP1 class.

With the increase approved in this Order, the average Farm and Home customer using 1,140 kWh will see a monthly increase of $1.88, or 1.85 percent.

Non-Recurring Charges

In its application, Taylor County proposed changes to its non-recurring charges as shown in the following table:

Type of Charge	Current	Proposed
Return Check	$15.00	$25.00
Meter Test	$20.00	$40.00
Termination/ Field Collection	$25.00	$35.00
Service Investigation	$25.00	$45.00
After Hours - Reconnect	$70.00	$90.00

Taylor County filed a cost justification supporting the increases in the changes, and the increases are accepted as proposed. As noted in the above table, Taylor County is increasing its Service Investigation during regular working hours from $25.00 to $45.00. Taylor County currently has a Service Investigation After-Hours charge of $35.00. In response to a Commission Staff request for information,[36] Taylor County stated that it had withdrawn a request to increase the Service Investigation After-Hours charge because it was not included in Taylor County's notice. However, Taylor County also stated that it incurs Service Investigation After-Hours costs of $90.00 as detailed in Exhibit 15 of its application. The Commission finds that a Service Investigation After-Hours charge of $90.00 should be approved in addition to those proposed by Taylor County.

[36] Taylor County's response to Item 1 of Staff's Third Request.

OTHER ISSUES

Energy Efficiency and Demand-Side Management ("DSM")

In response to Commission Staff's request for information[37] and testimony at the public hearing, Taylor County stated that it offers its customers DSM programs in conjunction with programs offered by East Kentucky, with the exception of the HVAC Duct Sealing program. Taylor County also stated that it has no plans at this time to establish or develop DSM programs independent of EKPC, but continues to evaluate programs that could be offered in the future.

The Commission believes that conservation, energy efficiency and DSM will become more important and cost-effective in the future, as more constraints are likely to be placed upon utilities whose main source of supply is coal-based generation. The Governor's proposed energy plan, *Intelligent Energy Choices for Kentucky's Future, November 2008,* calls for an increase in DSM by 2025. In addition, the Commission stated its support for cost-effective demand-side programs in response to several recommendations included in *Electric Utility Regulation and Energy Policy in Kentucky,* the report the Commission submitted in July 2008 to the Kentucky General Assembly pursuant to Section 50 of the 2007 Energy Act. Although Taylor County has a number of DSM programs in place, the Commission believes that it is appropriate to encourage Taylor County and all other electric energy providers to make a greater effort to offer cost-effective DSM and other energy-efficiency programs.

Depreciation Study

During testimony at the public hearing by Mr. James R. Adkins, Taylor County's consultant for this rate case, the Commission discovered that the depreciation study

[37] Response to Commission Staff's First Request for Information, Item 49, and response to Staff's Second Request, Item 22.

performed in conjunction with this case and sponsored by Mr. Adkins was not developed by Mr. Adkins. It has been the belief and understanding of the Commission that this depreciation study, as well as depreciation studies submitted and sponsored by Mr. Adkins in prior rate cases on behalf of other East Kentucky distribution cooperatives, were in fact conducted and developed by Mr. Adkins. When questioned at the hearing as to the identity of the person who developed the depreciation study and asked to produce the computer software used to develop Taylor County's depreciation study, Mr. Adkins declined, citing proprietary concerns. This revelation causes concern for the Commission as it calls into question the credibility of the results of the study. Without the ability to perform discovery on the individual who actually conducted the depreciation study as well as the software program used to develop the depreciation study, the Commission cannot be assured that there has been a proper and complete analysis of the depreciation study and its results. There is available to the utility a mechanism to provide for confidential treatment of information when such treatment is warranted, for which Taylor County could have petitioned in this case. To allay concerns about the validity of the results of this depreciation study, the Commission believes that Taylor County should develop another depreciation study within five years from the date of this Order, or in conjunction with its next rate case, whichever is earlier.

SUMMARY

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

1. The rates set forth in the Appendix to this Order are fair, just, and reasonable rates for Taylor County 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 Taylor County's financial obligations.

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

IT IS THEREFORE ORDERED that:

1. The rates and charges proposed by Taylor County are denied.

2. The rates in the Appendix to this Order are approved for service rendered by Taylor County on and after the date of this Order.

3. Within 20 days of the date of this Order, Taylor County shall file with this Commission, using the Commission's Electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and reflecting their effective date and that they were authorized by this Order.

4. Taylor County shall perform a depreciation study within five years from the date of this order, or in connection with the filing of its next rate case, whichever is earlier.

By the Commission

ENTERED
MAR 26 2013
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2012-00023 DATED MAR 26 2013

The following rates and charges are prescribed for the customers in the area served by Taylor County Rural Electric 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 this Order.

SCHEDULE A

FARM AND HOME

Customer Charge Per Month	$ 9.82
All kWh Per kWh	$ .08220

SCHEDULE GP1

GENERAL PURPOSE SERVICE

Customer Charge Per Month	$ 10.00
All kWh Per kWh	$ .08237

NON-RECURRING CHARGES

Return Check	$ 25.00
Meter Test	$ 40.00
Termination/Field Collection	$ 35.00
Service Investigation	$ 45.00
After-Hours Charge - Reconnect	$ 90.00
After-Hours Charge - Service Investigation	$ 90.00

Barry L Myers
Manager
Taylor County R.E.C.C.
625 West Main Street
P. O. Box 100
Campbellsville, KY 42719

Honorable Robert Spragens, Jr.
Attorney at Law
Spragens, Smith & Higdon, P.S.C.
15 Court Square
P.O. Box 681
Lebanon, KENTUCKY 40033