

# CRAWFORD & BAXTER, P.S.C.

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RECEIVED

AUG 06 2013

PUBLIC SERVICE  
COMMISSION

James M. Crawford  
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August 6, 2013

Mr. Jeffrey Derouen  
Executive Director  
Kentucky Public Service Commission  
P.O. Box 615  
211 Sower Boulevard  
Frankfort, KY 40602

RE: PSC Case No. 2012-00448

Dear Mr. Derouen:

Please find enclosed for filing with the Commission in the above-referenced proceeding, an original and ten copies of Owen Electric Cooperative, Inc.'s Motion for Leave to File Settlement Agreement and Testimony in Support.

Please contact me with any questions.

Respectfully yours,

CRAWFORD & BAXTER, P.S.C.

  
James M. Crawford  
Attorney for Owen Electric Cooperative, Inc.

cc: Parties of Record

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

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AUG 06 2013

PUBLIC SERVICE  
COMMISSION

**In the Matter of:**

**APPLICATION OF OWEN ELECTRIC                             )**  
**COOPERATIVE, INC. FOR AN ADJUSTMENT             ) CASE NO.**  
**OF RATES   ) 2012-00448**

**MOTION OF OWEN ELECTRIC COOPERATIVE, INC. FOR LEAVE TO FILE**  
**SETTLEMENT AGREEMENT AND TESTIMONY IN SUPPORT**

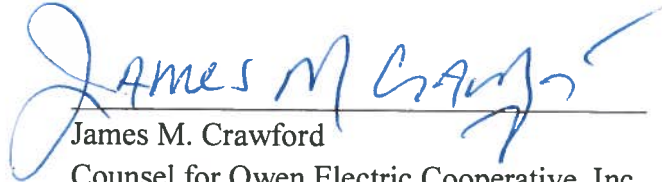
Comes now Owen Electric Cooperative, Inc. (“Owen Electric”), by and through counsel, and hereby moves the Kentucky Public Service Commission (the “Commission”) for leave to file the Settlement Agreement and the Testimony in support of Settlement of Mark A. Stallons, President & CEO of Owen Electric.

In support of this Motion, Owen Electric states that it and the intervenor in this proceeding, the Office of the Attorney General, met at the offices of the Commission on August 1, 2013, for a conference to discuss settlement of the matters at issue in this proceeding. The Settlement Agreement that accompanies this Motion is contained as “Exhibit 1” to Mr. Stallons’ testimony and is the product of those negotiations and represents a complete settlement with the Office of the Attorney General. Mr. Stallons’ testimony describes the Settlement Agreement and the process by which the Parties reached it. Owen Electric desires to submit the Settlement Agreement and testimony in support into the record of these proceedings for the Commission’s consideration and approval to permit a change in base rates for service rendered on and after September 1, 2013, or as of the date of the Commission’s Order, whichever is later.

**WHEREFORE**, Owen Electric Cooperative, Inc. respectfully moves the Commission to grant it leave to file the attached Settlement Agreement and Testimony in support of Settlement.

Dated at Owenton, Kentucky, this 4<sup>th</sup> of August 2013.

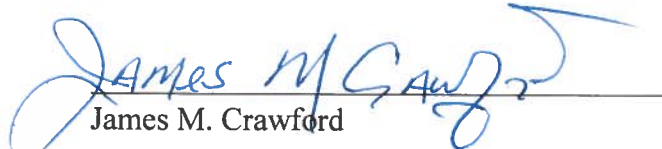
Respectfully submitted,



James M. Crawford  
Counsel for Owen Electric Cooperative, Inc.  
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Phone: (502) 732-6688  
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**CERTIFICATE OF SERVICE**

I hereby certify that a copy of the foregoing was served a true and correct copy, by hand-delivery to all parties on the 6 day of August, 2013.

  
James M. Crawford  
Counsel for Owen Electric Cooperative, Inc.

Jennifer B Hans  
Assistant Attorney General's Office  
1024 Capital Center Drive, Ste 200  
Frankfort, Kentucky 40601-8204

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PUBLIC SERVICE  
COMMISSION

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF OWEN ELECTRIC )  
COOPERATIVE, INC. FOR AN ADJUSTMENT ) CASE NO.  
OF RATES ) 2012-00448

TESTIMONY OF MARK A. STALLONS IN SUPPORT OF  
SETTLEMENT AGREEMENT

1 1. Q. Please state your name and business address.

2 A. My name is Mark A. Stallons and my business address of 8205 Highway 127 North,  
3 Owenton, Kentucky 40359.

4 2. Q. What is your occupation?

5 A. I am President & CEO of Owen Electric Cooperative, Inc. ("Owen Electric").

6 3. Q. How long have you been employed at Owen Electric?

7 A. I was employed on January 5, 2009, as President & CEO.

8 4. Q. What is your education and work experience?

9 A. I graduated from Ohio Northern University in 1979 with a Bachelor of Science  
10 degree in electrical engineering and from the University of Dayton in 1986 with a  
11 Masters in Business Administration. I have worked in the electric industry for over  
12 23 years with two years at an investor-owned utility and twenty-one years at various  
13 electric cooperatives in Illinois, Michigan, and most recently Kentucky. My utility  
14 experience includes operations, engineering, marketing, customer service, and  
15 management areas. I am a registered professional engineer in the State of Ohio.

1 **5. Q. What is the purpose of your testimony?**

2 A. The purpose of my testimony is to present the Settlement Agreement reached in total  
3 between Owen Electric and the Office of the Attorney General (“AG.”)

4 **6. Q. Please describe the procedural background of this case.**

5 A. On March 25, 2013, the Kentucky Public Service Commission (“Commission”)  
6 accepted Owen Electric’s Application for an Adjustment in Rates. The Commission  
7 granted intervention to the AG. Owen Electric and the AG will be referred to  
8 hereafter as the “Parties.”

9 **7. Q. Have the Parties reached a settlement for the Commission’s consideration?**

10 A. Yes. The Parties met at the Commission’s offices and engaged in negotiations on  
11 August 1, 2013, to reach the Settlement Agreement attached hereto as “Exhibit 1”.  
12 The Settlement Agreement is a reasonable settlement addressing the Parties’  
13 respective interests and results in fair, just, and reasonable rates, terms, and  
14 conditions for all Owen Electric members. The settlement does not attach specific  
15 dollars or concessions on any particular issue; however, it represents an estimated  
16 downward adjustment addressing concerns of the AG and it provides an overall  
17 outcome with a fair, just, and reasonable result. The Parties agree that the settlement  
18 should not be considered to set a precedent, but a negotiated outcome.

19 **8. Q. What revenue requirement does the Settlement Agreement establish for Owen Electric?**

20 A. The Settlement Agreement establishes an annual revenue increase of \$4,000,000.  
21 This increase is fair, just and reasonable for the Parties, and is also fair, just, and  
22 reasonable for all members of Owen Electric.

1 **9. Q. What is the effective date for this annual revenue increase?**

2 A. The Parties hereto agree that the annual revenue increase will be effective for service  
3 rendered on and after September 1, 2013, or the date of the Commission's Order  
4 placing such rates into effect, whichever is later, and this rate implementation date  
5 is fair, just, and reasonable for the Parties and for all members of Owen Electric.

6 **10. Q. What revenue allocations does the Settlement Agreement establish?**

7 A. The allocations of the increase in annual revenue are outlined in "Exhibit 2" to the  
8 Settlement Agreement, and are fair, just and reasonable to the Parties and for all  
9 members of Owen Electric.

10 **11. Q. Does the Settlement Agreement contain other stipulations?**

11 A. Yes. Owen Electric agrees that its Board of Directors and Management commit to  
12 continuing its 23-year history of paying capital credits on Owen-generated  
13 distribution equity, when possible and consistent with its Board's policy, without  
14 compromising the financial integrity of the cooperative.

15 **12. Q. If the Commission does not issue an Order before the end of the suspension period, does**  
16 **Owen Electric plan to place the rates, as contained in the Application, in effect, subject to**  
17 **refund?**

18 A. No. Owen Electric does not plan to place rates in effect subject to refund.

19 **13. Q. Do the Parties recommend that the Commission approve the Settlement Agreement as**  
20 **presented?**

21 A. Yes. Owen Electric and the AG recommend the Commission approve the Settlement  
22 Agreement in its entirety and without modification.

1 **14. Q. Does this conclude your testimony?**

2 A. Yes, it does.

3 Affiant, Mark A. Stallons, states that the answers given by her to the foregoing  
4 questions are true and correct to the best of her knowledge and belief.

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\_\_\_\_\_  
Mark A. Stallons, President & CEO

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Subscribed and sworn to before me by the affiant, Mark A. Stallons, this 6<sup>th</sup>  
day of August, 2013.

My commission expires: April 14<sup>th</sup>, 2015

  
\_\_\_\_\_  
Notary Public, KY, State at Large



**COMMONWEALTH OF KENTUCKY**

**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

**APPLICATION OF OWEN ELECTRIC )  
COOPERATIVE, INC. FOR AN ADJUSTMENT ) CASE NO.  
OF RATES ) 2012-00448**

**SETTLEMENT AGREEMENT**

This Settlement Agreement ("Settlement Agreement") is entered into this 6<sup>th</sup> day of August 2013, by and between Owen Electric Cooperative, Inc. ("Owen Electric") and Commonwealth of Kentucky, ex. rel. Jack Conway, Attorney General, by and through the Office of Rate Intervention ("AG").

**WITNESSETH:**

**WHEREAS**, on March 25, 2013, the Kentucky Public Service Commission ("Commission") accepted Owen Electric's Application for an Adjustment of Rates in a case styled, In the Matter of: Application of Owen Electric Cooperative, Inc. for an Adjustment of Rates, Case No. 2012-00448.

**WHEREAS**, the AG was granted intervention by Order of the Commission in this proceeding; and,

**WHEREAS**, an Informal Conference for the purpose of discussing settlement, and related substantive and procedural issues, took place at the Commission's offices on August 1, 2013, which

was attended by representatives of the Commission, and of the AG and Owen Electric (the "Parties"); and,

**WHEREAS**, the Parties hereto desire to settle the issues pending before the Commission in the above-referenced proceeding; and,

**WHEREAS**, the adoption of this Settlement Agreement will decrease the need for the Commission and the Parties to expend unnecessary resources litigating this proceeding; and, further, will greatly reduce the possibility of, and any need for, rehearing or appeals of the Commission's final Order herein; and,

**WHEREAS**, it is understood by all Parties hereto that this Settlement Agreement is subject to the approval of the Commission, insofar as it constitutes an agreement by the parties for settlement, and absent express agreement stated herein, does not represent agreement on any specific claim, computation, formula, allegation, assertion, contention, methodology, theory or ratemaking principle supporting the appropriateness of any proposed or recommended adjustments to Owen Electric's rates, terms, and conditions; and,

**WHEREAS**, the Parties agree that this Settlement Agreement, viewed in its entirety, is a fair, just, and reasonable resolution of the issues in the above-referenced proceeding; and,

**WHEREAS**, it is the Position of the Parties hereto that the terms about which they can all agree as reflected in this Settlement Agreement are supported by sufficient and adequate data and information, and should be approved in its entirety by the Commission.

**NOW, THEREFORE**, for and in consideration of the good-faith negotiations entered into by the Parties and the terms and conditions set forth herein, the Parties hereby stipulate and agree as follows:

**ARTICLE I—Revenue Requirements and Revenue Allocation**

1. The Parties hereto agree and stipulate that a Four Million Dollar (\$4,000,000) increase in annual revenue for Owen Electric, which represents an estimated downward adjustment to address concerns of the AG resulting in a settlement, that is fair, just, and reasonable for the Parties, and for all members of Owen Electric.
2. The Parties hereto agree that the annual revenue increase will be effective for service rendered on and after September 1, 2013, or the date of the Commission's Order placing such rates into effect, whichever is later, and this rate implementation date is fair, just, and reasonable for the Parties and for all members of Owen Electric.
3. The Parties hereto agree that the allocations of the increase in annual revenue for Owen Electric, as set forth on the schedule designated "Exhibit 2" hereto are fair, just, and reasonable for the Parties and for all members of Owen Electric.
4. Owen Electric hereto agrees that its Board of Directors and Management commit to continuing its 23-year history of paying capital credits on Owen-

generated distribution equity, when possible and consistent with Board policy, without compromising the financial integrity of the cooperative.

**ARTICLE II—Miscellaneous Provisions**

1. Except as specifically stated in this Settlement Agreement, the Parties agree that making this Settlement Agreement shall not be deemed in any respect to constitute an admission by any party hereto that any computation, formula, allegation, assertion, contention, methodology, or ratemaking principle otherwise made by any other party in these proceedings is true or valid.
2. The Parties hereto agree that the foregoing stipulations and agreements represent a fair, just, and reasonable resolution of the issues addressed herein and request the Commission to approve the Settlement Agreement.
3. The Parties hereto agree that, following the execution of this Settlement Agreement, the Parties shall cause the Settlement Agreement to be filed with the Commission by August 6, 2013, together with a request to the Commission for consideration and approval of this Settlement Agreement for rates to become effective on and after September 1, 2013.
4. Each party stipulates and recommends that the Notice of Intent, Notice, Application, testimony, pleadings, and responses to data requests filed in this proceeding be admitted into the record. The Parties stipulate that after the date of this Settlement Agreement that they will not otherwise contest Owen Electric's proposals, as modified by this Settlement Agreement, in the

hearing of the above-referenced proceeding the subject matter of the Settlement Agreement, and that they will refrain from cross-examination of the Parties' witnesses during the hearing, except insofar as such cross-examination is in support of the Settlement Agreement.

5. The Parties hereto agree that this Settlement Agreement is subject to the acceptance of and approval by the Commission. The Parties hereto further agree to act in good faith and to use their best efforts to recommend to the Commission that this Settlement Agreement be accepted and approved.
6. If the Commission issues an order adopting this Settlement Agreement in its entirety, each of the Parties agrees that it shall file neither a motion for rehearing with the Commission, nor an appeal to the Franklin Circuit Court with respect to such order.
7. The Parties hereto agree that, if the Commission does not accept and approve this Settlement Agreement in its entirety, then: (a) this Settlement Agreement shall be void and withdrawn by the parties hereto from further consideration by the Commission and none of the parties shall be bound by any of the provisions herein, provided that no party is precluded from advocating any position contained in this Settlement Agreement; and (b) neither the terms of this Settlement Agreement nor any matters discussed or raised during the settlement negotiations shall be binding on any of the Parties to this Settlement Agreement, be construed against any of the Parties in any fashion,

nor be the subject of cross-examination in any subsequent court or administrative proceeding.


8. The Parties hereto agree that, should the Settlement Agreement be voided or vacated for any reason after the Commission has approved the Settlement Agreement, then the parties shall be returned to the status quo existing at the time immediately prior to the execution of this agreement.
9. The Parties hereto agree that this Settlement Agreement shall in no way be deemed to divest the Commission of jurisdiction under Chapter 278 of the Kentucky Revised Statutes.
10. The Parties hereto agree that this Settlement Agreement shall inure to the benefit of and be binding upon the parties hereto, their successors and assigns.
11. The Parties hereto agree that this Settlement Agreement constitutes the complete agreement and understanding among the parties hereto, and any and all oral statements, representations or agreements made prior hereto or contained contemporaneously herewith shall be null and void and shall be deemed to have been merged into this Settlement Agreement.
12. The Parties hereto agree that, for the purpose of this Settlement Agreement only, the terms are based upon the independent analysis of the parties to reflect a fair, just, and reasonable resolution of the issues herein and are the product of compromise and negotiation.

13. The Parties hereto agree that neither the Settlement Agreement nor any of the terms shall be admissible in any court or administrative proceeding except insofar as such court or administrative body is addressing litigation arising out of the implementation of the terms herein or the approval of this Settlement Agreement. This Settlement Agreement shall not have any precedential value in this jurisdiction.
14. The signatories hereto warrant that they have appropriately informed, advised, and consulted their respective Parties in regard to the contents and significance of this Settlement Agreement and based upon the foregoing are authorized to execute this Settlement Agreement on behalf of their respective Parties.
15. The Parties hereto agree that this Settlement Agreement is a product of negotiation among all parties hereto, and no provision of this Settlement Agreement shall be strictly construed in favor of or against any party. Notwithstanding anything contained in the Settlement Agreement, the Parties recognize and agree that the effects, if any, of any future events upon the operating income of Owen Electric is unknown and this Settlement Agreement shall be implemented as written.
16. The Parties hereto agree that this Settlement Agreement may be executed in multiple counterparts.

**IN WITNESS WHEREOF**, the parties have hereunder affixed their signatures:


Owen Electric Cooperative, Inc.

HAVE SEEN AND AGREED:

By:  \_\_\_\_\_  
James M. Crawford, Counsel

Commonwealth of Kentucky, ex. rel. Jack Conway,  
Attorney  
General, by and through the Office of Rate Intervention

HAVE SEEN AND AGREED:

By:  \_\_\_\_\_  
Jennifer Hans, Counsel



OWEN ELECTRIC COOPERATIVE, INC.  
CASE NO. 2012-00448

**IMPACT OF PROPOSED SETTLEMENT ON RATE PROPOSAL**

<b><u>Increase in Base Rates in Application</u></b>	\$ 4,074,169
Settlement Amount	* 4,000,000
Reduction from Original Application	<u>\$ 74,169</u>

**Energy Sales for Rate Classes with**

Rate 1 - Farm and Home	712,659,575
Rate 1 - Small Commercial	52,757,480
Total Energy Sales	<u>765,417,055</u>

**Decrease in Energy Rates for Each Class**

Total Reduction in Revenue Requirements	\$ 74,169
Total Energy Sales in kWh	765,417,055
Decrease in Energy Rates for Each Class	<u>\$ 0.00010</u>

**Original Proposed & Revised Rates**

	<u>Original Proposed</u>	<u>Revised</u>
<b><u>Schedule 1 and 1A - Farm and Home</u></b>		
Customer Charge	\$ 14.20	\$ 14.20
Energy Charge per kWh	\$ 0.09031	\$ 0.09021
Energy Charge per kWh-ETS	\$ 0.05419	\$ 0.05413
<b><u>Schedule 1 and 1A - Farm and Home</u></b> <b><u>(Effective September 1, 2013)</u></b>		
Customer Charge	\$ 17.10	\$ 17.10
Energy Charge per kWh	\$ 0.08766	\$ 0.08756
<b><u>Schedule 1 and 1A - Farm and Home</u></b> <b><u>(Effective March 1, 2015)</u></b>		
Customer Charge	\$ 20.00	\$ 20.00
Energy Charge per kWh	\$ 0.08501	\$ 0.08491

**OWEN ELECTRIC COOPERATIVE, INC.**  
**CASE NO. 2012-00448**

Schedule 1 - Small Commercial

Customer Charge	\$	17.23	\$	17.23
Energy Charge per kWh	\$	0.09068	\$	0.09058

Schedule 1 - Small Commercial  
(Effective September 1, 2013)

Customer Charge	\$	21.12	\$	21.12
Energy Charge per kWh	\$	0.08856	\$	0.08846

Schedule 1 - Small Commercial  
(Effective March 1, 2015)

Customer Charge	\$	25.00	\$	25.00
Energy Charge per kWh	\$	0.08644	\$	0.08634

All other rates are unchanged from the original Application.

\* Settlement was negotiated considering the information on Exhibit 2, Page 3 of 3.

**OWEN ELECTRIC COOPERATIVE, INC.**  
**CASE NO. 2012-00448**

Rate Increase, as proposed	\$ 4,074,169.00
Interest Expense Differential Between Original Application and Response to Staff's Fourth Data Request, Item 1 (\$26,832 vs \$435,377)	\$ 408,545.00
TIER Impact of Interest Expense (1.93 times TIER)	\$ 379,947.00
	<u>\$ 4,862,661.00</u>
<b>Settlement Amount</b>	<u><b>\$ 4,000,000.00</b></u>