

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|-------------------------------------|---|------------|
| A REVIEW OF THE RATE CASE PROCEDURE |) | CASE NO. |
| FOR ELECTRIC DISTRIBUTION |) | 2018-00407 |
| COOPERATIVES |) | |

ORDER

On December 11, 2018, the Commission, on its own motion, issued an Order (Order) establishing this administrative case to review the procedure for filing general rate adjustments for electric distribution cooperatives (Distribution Cooperatives). The Order established a 45-day period for any interested party to file comments. Mark David Goss, on behalf of Goss Samford, PLLC (Goss Samford), and the Kentucky Association of Electric Cooperatives, Inc. (KAEC), were the only entities that filed comments.

KAEC commented in favor of the Commission's pilot program. Goss Samford raised two issues with the Order. First, Goss Samford notes that on page 4 of the Order, the Commission discusses the version of the public notice that is to be posted at the Distribution Cooperative's place of business and on its website should be the "full" version of which Goss Samford states presumably should reflect all the content required by 807 KAR 5:001 Section 17(4). Section 17(4)(j) of 807 KAR 5:001 requires "a statement that if the commission does not receive a written request for intervention within thirty (30) days of initial publication or mailing of the notice, the commission may take final action on the application," and Goss Samford opines that the language may be problematic if the Commission prescribes a different timeframe for requesting intervention in the procedural

schedule issued in a streamlined rate case. Goss Samford also opines that because the Order requires all notices to include language that the Commission must issue an Order within 75 days of the date the application is filed, the 30-day timeframe in 807 KAR 5:001, Section 17(4)(j) is problematic. Goss Samford recommends that the Commission: (1) "make clear whether 807 KAR 5:001 Section 17(4)(j) should be included in full notices posted by Distribution Cooperatives as part of streamlined rate cases"; and (2) that the Commission clarify whether "information regarding the member's right to request intervention," which Distribution Cooperatives must include in abbreviated notices in streamlined cases, should reflect the requirements of both subsection (i) and subsection (j) of Section 17(4), or perhaps just the former."¹

Second, Goss Samford also states that at page 7 of the Order, the Commission purports to waive the requirements of 807 KAR 5:001, Section 16(4)(c), which the Order describes as "written testimony or statement that utility will not use a witness if the rate increase is less than \$5,000,000."² Goss Samford notes that the referenced regulation is only applicable to utilities with gross annual revenues less than \$5,000,000, while 807 KAR 5:001 Section(4)(d), does pertain to utilities with gross annual revenues with more than \$5,000,000, which would include all of the Distribution Cooperatives, but the regulation does not mention the amount of the rate increase and is not mentioned in the Order. Goss Samford recommends that the Commission provide clarification on this issue.

¹ Comments of Goss Samford at 2. (Footnotes omitted.)

² Order at 7.

Based on the comments received and further analysis by the Commission, the Commission modifies the Order as follows. All other provisions of the Order will remain unaffected.

I. Modifications

A. Notification Requirements

1. The Commission agrees with the comments of Goss Samford that confusion may arise by requiring the information required by 807 KRS 5:001, Section 17(4)(j), be included in the “full” notice. Accordingly, the Commission will modify its Order regarding notice to include a deviation from the requirements of 807 KRS 5:001, Section 17(4)(j). For both the full and abbreviated notice, a statement pursuant to 807 KRS 5:001, Section 17(4)(i), informing the customer that they may submit a timely motion to the Commission, will be sufficient.

2. The Commission finds that if a Distribution Cooperative has no customers currently taking service under a particular rate, and the Distribution Cooperative is proposing to change the rate in its application, those rates do not need to be included in the abbreviated notice.

3. The Commission finds that a Distribution Cooperative may summarize lighting and other miscellaneous rate classes in the abbreviated notice.

B. 807 KAR 5:001, Section 16(4)(c)

The Commission appreciates Goss Samford for drawing the Commission’s attention to the inaccuracy in the Order. The Commission believes that some form of testimony, even in abbreviated form, will likely be necessary to complete the

Commission's review of a streamlined application. Accordingly, the Commission will modify its Order to remove the deviation from 807 KAR 5:001, Section 16(4)(c).

II. Conclusion

In the event the pilot program and its streamlined procedures achieve the goals stated in this Order, the next step would be for the Commission to permanently codify some or all of the temporary changes undertaken herein. Just as this pilot program was developed through communication and collaboration between and among the Commission, the stakeholders, and the Attorney General, any permanent changes will be similarly vetted with all affected parties.

IT IS THEREFORE ORDERED that:

1. This pilot program, as amended, is established for the purposes of reviewing and streamlining the rate case procedure for Distribution Cooperatives subject to the Commission's jurisdiction.

2. Distribution Cooperatives seeking to utilize the streamlined procedure shall follow the procedures and conform their applications to the requirements listed in Appendix A to this Order.

3. A Distribution Cooperative approved for a streamlined rate case is granted a deviation from 807 KAR 5:001, Section 12(1)(a).

4. A Distribution Cooperative approved for a streamlined rate case is granted a deviation from the following sections of 807 KAR 5:001, Section 16:

- a. (1)(b)(2): certified copy of certificate of assumed name;
- b. (4)(j): current chart of accounts;
- c. (4)(k): current auditor's report;

- d. (4)(l): most recent FERC report;
- e. (4)(m): most recent FERC financial reports;
- f. (4)(n): latest depreciation study if the depreciation schedule on file with the Commission is the most recent version;
- g. (4)(o): list of computer software programs, and models;
- h. (4)(p) prospectus of most recent stock or bond offering;
- i. (4)(q): annual reports over the two most recent years;
- j. (4)(r): monthly managerial reports for the 12-month test period;
- k. (4)(s): Form 10-K or Form 8-K from last two years;
- l. (4)(v): telecom specific data;
- m. (5)(b): capital construction budget;
- n. (5)(c): detail regarding pro forma adjustments reflecting plant additions;
and
- o. (5)(d): operating budget for each month encompassing the pro forma adjustments.

5. A Distribution Cooperative that plans to file an application seeking to use the streamlined procedure is granted a deviation from the notice requirements in 807 KAR 5:001, Section 17, as specified in Appendix B to this Order.

6. A copy of this Order shall be served on all Distribution Cooperatives subject to the Commission's jurisdiction and the Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention.

7. This case is hereby closed and will be removed from the Commission's docket.

By the Commission

ENTERED
MAR 26 2019
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2018-00407

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2018-00407 DATED **MAR 26 2019**

The procedure for the streamlined rate case for Distribution Cooperatives is as follows:

A. Prerequisites for Use of the Streamlined Process

1. At least 12 months have elapsed since the effective date of the Distribution Cooperative's most recent base rate increase;
2. The application requests a maximum rate increase of 0.75 percent per 12 months;
3. Any rate increase procedure cannot result in an Operational Times Interest Earned Ratio (OTIER) of greater than 1.85;
4. While multiple 12-month periods may be aggregated in one rate increase application, the overall cumulative increase shall not exceed four (4) percent;
5. The Distribution Cooperative's Cost of Service Study (COSS) must be less than five (5) years old;
6. The application is limited to seeking adjustments in revenue requirements and rate design and does not include any request for a certificate of public convenience and necessity (CPCN) or changes in the Distribution Cooperative's tariff beyond those necessary to reflect changes in rates; and
7. The application shall be filed electronically per the requirements of 807 KAR 5:001, Section 8.

B. Procedure Upon the Filing of the Application

1. Contemporaneously with the filing of the application with the Commission, the Distribution Cooperative shall electronically submit a copy of the application to the Attorney General of the Commonwealth of Kentucky, Office of Rate Intervention (Attorney General);
2. Upon the filing of the application, the Commission shall issue an order granting the Attorney General intervention, and allowing all other potential intervenors to have seven (7) days from the date of the application's filing to file comments regarding the Distribution

Cooperative's request for a streamlined rate case versus a traditional rate case. This Order shall also establish a seven-day period in which the Attorney General shall file its statement as required by 807 KAR 5:001, Section 8(9)(b), or notify the Commission in writing that the Attorney General will not participate in the proceeding;

3. Within ten business days of the filing of the rate case, the Commission shall complete its initial review of the application and issue an order either accepting or rejecting the application for filing under the streamlined rate procedure;
4. An Order approving the Distribution Cooperative for the streamlined procedure shall incorporate into the record the last two completed annual reports of the Distribution Cooperative on file with the Commission;
5. An Order approving the Distribution Cooperative for the streamlined procedure shall establish a procedural schedule that:
 - a. provides deadlines for requests for intervention,
 - b. provides for one round of requests for information, and
 - c. upon the conclusion of the filing of evidence, provides for a comment period for parties to submit written comments prior to submission of the case to the Commission for a final decision;
6. The Distribution Cooperative shall identify the witness(es) responsible for providing the information contained in the application or in responses to any requests for information and include contact information for each witness; and
7. The Distribution Cooperative may state in its application that members of Commission Staff may contact the Distribution Cooperative's witnesses directly, without counsel present, to seek clarification of certain factual information contained in the application or in responses to requests for information. Following any such communication, Commission Staff shall file in the record a memorandum detailing the content and subject of the communication.

C. Application Filing Requirements

1. The rate increase shall only be based on a historical test year that corresponds with the most recent annual report on file with the Commission;

2. The application shall also contain a narrative statement discussing what changes have occurred for the Distribution Cooperative since the effective date of its last general rate adjustment and stating the reasons for the proposed adjustment;
3. The application shall include:
 - a. The estimated dates for drawdowns of unadvanced loan funds at the test-year end and the proposed uses of these funds;
 - b. A general statement identifying any electric property or plant held for future use;
 - c. The calculation of normalized depreciation expense (test-year-end plant account balance multiplied by depreciation rate);
 - d. Any changes that occurred during the test year to the Distribution Cooperative's written policies on the compensation of its attorneys, auditors, and all other professional service providers, indicating the effective date and reason for these changes;
 - e. Any changes that occurred during the test year to the Distribution Cooperative's written policies specifying the compensation of directors and a schedule of standard directors' fees, per diems, and other compensation in effect during the test year. If changes occurred during the test year, indicating the effective date and reason for these changes;
 - f. A schedule reflecting the salaries and other compensation of each executive officer for the test year and two preceding calendar years. Include the percentage of annual increase and the effective date of each increase, the job title, duty, and responsibility of each officer, the number of employees who report to each executive officer, and to whom each executive officer reports. Also, for employees elected to executive officer status during the test year, provide the salaries for the test year for those persons whom they replaced;
 - g. An analysis of Account No. 930, Miscellaneous General Expenses, for the test year. Include a complete breakdown of this account by the following categories: industry association dues, debt-serving expenses, institutional advertising, conservation advertising, rate department load studies, director's fees and expenses, dues and subscriptions, and miscellaneous. Include all detailed supporting workpapers. At a minimum, the workpapers should show the date, vendor, reference (e.g., voucher number), dollar amount, and a brief description of each

expenditure. A detailed analysis is not required for amounts of less than \$100;

- h. An analysis of Account No. 426, Other Income Deductions, for the test period. Include a complete breakdown of this account by the following categories: donations, civic activities, political activities, and other. Include detailed supporting workpapers. At a minimum, the workpapers should show the date, vendor, reference (e.g., voucher number), dollar amount, and a brief description of each expenditure. A detailed analysis is not required for amounts of less than \$250;
- i. A statement explaining whether the depreciation rates reflected in this filing are identical to those most recently approved by the Commission. If identical, identify the case in which they were approved. If not, provide the depreciation study that supports the rates reflected in this filing;
- j. A copy of all exhibits and schedules that were prepared for the rate application in Excel spreadsheet format with all formulas intact and unprotected and with all columns and rows accessible;
- k. The Distribution Cooperative's Times Interest Earned Ratio, OTIER, and debt service coverage ratio, as calculated by the Rural Utilities Service, for the test year and the five most recent calendar years, including the data used to calculate each ratio;
- l. A trial balance as of the last day of the test year that shows the account number, subaccount number, account title, subaccount title, and amount. The trial balance shall include all asset, liability, capital, income, and expense accounts used by the Distribution Cooperative. All income statements accounts should show activity for 12 months. The application should show the balance in each control account and all underlying subaccounts per the company books;
- m. A schedule comparing balances for each balance sheet account or subaccount included in the Distribution Cooperative's chart of accounts for each month of the test year to the same month of the 12-month period immediately preceding the test year;
- n. A schedule comparing each income statement account or subaccount included in the Distribution Cooperative's chart of accounts for each month of the test year for the same month of the 12-month period immediately preceding the test year. The amounts should reflect the income or expense activity of each

month, rather than the cumulative balances at the end of the particular month; and

- o. A schedule showing employee health, dental, vision, and life insurance premium contributions by coverage type, including the percentage cost split of each identified premium between the employee and the Distribution Cooperative.

D. Excluded Items for Ratemaking Purposes

The following items shall be excluded from the pro forma test-year income statement and supporting documentation included in the application:

1. For employer retirement contributions for employees participating in multiple benefit packages, exclude the contribution for the least generous plans;
2. If employee health care insurance premium contribution is zero, then for ratemaking purposes, the pro forma income statement should reflect healthcare insurance premiums adjusted for employee contributions based on the national average for coverage type;³
3. Life insurance premiums for coverage above the lesser of an employee's annual salary or \$50,000;
4. Advertising expenses prohibited from rate recovery by 807 KAR 5:016;
5. All fuel adjustment clause (FAC) and environmental surcharge (ES) revenues and expenses from test-year revenues and expenses;
6. Charitable and political contributions (in cash or services);
7. Salary and all company-paid or reimbursed expenses or allowances for lobbying on the local, state, or national level. If any amounts are allocated, show a calculation of the factor used to allocate each amount;
8. Any nonregulated activities;
9. All nonutility property and related property taxes; and
10. For the board of directors:

³ See <https://www.bls.gov/ncs/ebs/benefits/2018/ownership/private/table10a.pdf>. This information is updated every September.

- a. Per diems for attending industry association meetings;
- b. Costs of health insurance coverage;
- c. Costs of post-retirement benefits;
- d. Costs of Christmas gifts;
- e. Cost of insurance for spouses or dependents of deceased directors; and
- f. Any costs for a director's spouse.

E. Revenue Neutral Rate Design

1. A Distribution Cooperative is not eligible for adjustments under this procedure until 12 months after the effective date of its most recent base rate increase and the Distribution Cooperative's COSS must be less than five years old.
2. The application shall be filed electronically, in accordance with the requirements of 807 KAR 5:001, Section 8, and shall be limited to seeking an adjustment of the Distribution Cooperative's rate design.
3. The application shall not include any request for a CPCN or changes in the Distribution Cooperative's tariff, except those necessary to reflect changes in rates.
4. The procedure and notice requirements detailed in Sections A and B of Appendix A to this Order shall be followed.
5. For a revenue neutral rate design application, in addition to the deviations listed in ordering paragraph 4. Of this Order, deviation from 807 KAR 5:001, Sections 16(4)(h), (4)(i), (4)(r), (4)(t), and (5) also may be requested.
6. The Distribution Cooperative need not provide the information listed in Section C.3. of Appendix A of this Order with its application.

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2018-00407 DATED **MAR 26 2019**

Notification Requirements

A Distribution Cooperative that plans to file an application seeking to use the streamlined procedure must follow the notification requirements set forth below and is granted a deviation from the notice requirements in 807 KAR 5:001, Section 17, as follows:

1. The Distribution Cooperative shall provide 30-days advance notice to the Commission before filing the rate application;
2. The public notice shall not include the statement required by 807 KRS 5:001, Section 17(4)(j);
3. The public notice shall include the statement required by 807 KRS 5:001, Section 17(4)(i);
4. The Distribution Cooperative shall post a copy of the public notice at its place of business;
5. Within five (5) days of filing its application with the Commission, the Distribution Cooperative shall post, conspicuously, a copy of the notice on its website and include therein a hyperlink to the Commission's website where the case documents are available;
6. The Distribution Cooperative should also post the public notice, or a link thereto, on its social media accounts;
7. Any notice posted, published, or given to the Distribution Cooperative's members shall include a statement that the Commission is required to take action within 75 days of the date the application is filed;
8. Any summary or abbreviated notice to customers shall include a reference to the Distribution Cooperative's place of business, website notifications, and social media posts where a copy of the full notice (or a link thereto) can be found;
9. Any summary or abbreviated notice to customers shall include, at a minimum:

- a. the case number;
 - b. the proposed effective date of the proposed rates and the average dollar and percentage increase to each customer class;⁴
 - c. the Commission's contact information;
 - d. information regarding the member's right to request intervention;
and
 - e. the current rate and the proposed rate;
10. A Distribution Cooperative may omit from the summary or abbreviated notice any rates under which no customers are currently receiving service;
 11. A Distribution Cooperative, in the summary or abbreviated notice, may summarize proposed changes to lighting and other miscellaneous rates;
 12. In addition to the notice requirements listed above, the Distribution Cooperative shall satisfy its publication requirement by:
 - a. including the summary notice with customer bills mailed no later than the filing date of the application or through a separate notice mailed no later than the filing date of the application;
 - b. publishing the summary or abbreviated notice in a newspaper of general circulation, with the first publication being no later than the filing date of the application, for three consecutive weeks inclusive of the first publication; or
 - c. publishing the summary or abbreviated notice in a trade publication or newsletter received by all Distribution Cooperative members, delivered no later than the date of the filing of the application.

⁴ If the Distribution Cooperative has no customer that takes services under a particular rate class, the Distribution Cooperative need not include the customer class in the summary notice.

*Big Sandy R.E.C.C.
Big Sandy R.E.C.C.
504 11th Street
Paintsville, KY 41240

*Nolin R.E.C.C.
Nolin R.E.C.C.
411 Ring Road
Elizabethtown, KY 42701-6767

*Inter-County Energy Cooperative Corp
Inter-County Energy Cooperative Corporation
1009 Hustonville Road
P. O. Box 87
Danville, KY 40423-0087

*Taylor County R.E.C.C.
Taylor County R.E.C.C.
625 West Main Street
P. O. Box 100
Campbellsville, KY 42719

*South Kentucky R.E.C.C.
South Kentucky R.E.C.C.
925-929 N Main Street
P. O. Box 910
Somerset, KY 42502-0910

*Jackson Energy Cooperative Corporati
Jackson Energy Cooperative Corporation
115 Jackson Energy Lane
McKee, KY 40447

*Farmers R.E.C.C.
Farmers R.E.C.C.
504 South Broadway
P. O. Box 1298
Glasgow, KY 42141-1298

*Meade County R.E.C.C.
Meade County R.E.C.C.
P. O. Box 489
Brandenburg, KY 40108-0489

*Licking Valley R.E.C.C.
Licking Valley R.E.C.C.
P. O. Box 605
271 Main Street
West Liberty, KY 41472

*Jackson Purchase Energy Corporation
Jackson Purchase Energy Corporation
2900 Irvin Cobb Drive
P. O. Box 4030
Paducah, KY 42002-4030

*Blue Grass Energy Cooperative Corp.
Blue Grass Energy Cooperative Corp.
1201 Lexington Road
P. O. Box 990
Nicholasville, KY 40340-0990

*Owen Electric Cooperative, Inc.
Owen Electric Cooperative, Inc.
8205 Highway 127 North
P. O. Box 400
Owenton, KY 40359

*Fleming-Mason Energy Cooperative, In
Fleming-Mason Energy Cooperative, Inc.
1449 Elizaville Road
P. O. Box 328
Flemingsburg, KY 41041

*Clark Energy Cooperative, Inc.
Clark Energy Cooperative, Inc.
2640 Ironworks Road
P. O. Box 748
Winchester, KY 40392-0748

*Shelby Energy Cooperative, Inc.
Shelby Energy Cooperative, Inc.
620 Old Finchville Road
Shelbyville, KY 40065

*Kent Chandler
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Cumberland Valley Electric, Inc.
Cumberland Valley Electric, Inc.
Highway 25E
P. O. Box 440
Gray, KY 40734

*Grayson R.E.C.C.
Grayson R.E.C.C.
109 Bagby Park
Grayson, KY 41143

*Kenergy Corp.
Kenergy Corp.
6402 Old Corydon Road
P. O. Box 18
Henderson, KY 42419

*East Kentucky Power Cooperative, Inc
East Kentucky Power Cooperative, Inc.
4775 Lexington Road
P. O. Box 707
Winchester, KY 40392-0707

*Rebecca W Goodman
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Big Rivers Electric Corporation
Big Rivers Electric Corporation
201 Third Street
P. O. Box 24
Henderson, KY 42420

*Salt River Electric Cooperative Corp
Salt River Electric Cooperative Corp.
111 West Brashear Avenue
P. O. Box 609
Bardstown, KY 40004