



# Meade County RECC

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August 20, 2007

Beth A. O'Donnell, Executive Director  
Kentucky Public Service Commission  
211 Sower Blvd.  
P. O. Box 615  
Frankfort, KY 40602

Dear Ms. O'Donnell:

Attached is an original and five (5) copies of Meade County's response to the "Public Hearing" information request in Case No 2006-00500 as well as the brief associated therewith.

If you need further information, please contact me at 270-422-2162 ext. 3127.

Sincerely,

Burns E. Mercer  
President and CEO

Enclosures

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF RATES            )  
FOR MEADE COUNTY RURAL        )  
ELECTRIC COOPERATIVE         )  
CORPORATION                    )

CASE NO. 2006-00500

BRIEF

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Comes now the Petitioner, Meade County Rural Electric Cooperative Corporation (hereinafter referred to as "MCRECC") and for its brief in support of the application to change its retail electric power rates submits the following:

INTRODUCTION

MCRECC has filed an application requesting permission from the Commonwealth of Kentucky Public Service Commission (hereinafter referred to as "Commission") to increase the basic rates effective for all electric power sold. The Attorney General of the Commonwealth of Kentucky (hereinafter referred to as "Attorney General") intervened and participated in the proceedings associated with this application to increase rates.

MCRECC filed an application for an increase in base rates of 7.2 percent which is an increase in revenue of

\$1,953,112 based on the test year of November 2005 through October 2006. This amount of increase is based on a Times Interest Earned Ratio (hereinafter referred to as "TIER") of 2.0. MCRECC had a TIER of 1.31 for the test year and a TIER of 1.11 for the adjusted test year. Under its joint mortgage agreements, MCRECC is required to maintain a TIER of at least 1.25 based on an average of two of the three most recent years.

This increase in base rates has been applied to two rate classes: Schedule 1R - Residential, Farm and Non-farm and Schedule 2R - Commercial Rate. The increase was applied to these rate classes based on the results of a Cost of Service Study prepared and submitted with this application.

MCRECC is a financially prudent managed rural electric cooperative whose equity capitalization ratio has decreased to thirty-one percent at the end of the test year. To maintain financial integrity and to comply with the Capital Management Plan MCRECC needs this rate increase to generate the cash, margins and equity levels to fulfill mortgage agreements and to pay capital credits to members. MCRECC's Capital Management Plan requires an equity capitalization ratio of thirty-two to forty percent with capital credits paid on the basis of a twenty year rotation cycle. MCRECC

has paid capital credits for the last five years, to estates of deceased members and to current members as general retirement. These payments have exceeded \$500,000 annually.

PRIMARY ISSUES QUESTIONED AT AUGUST 1, 2007 HEARING

**I. Account No. 593 Expenses**

The Attorney General expressed concern with test year expenses for Account No. 593 - Maintenance of Overhead Lines. The actual expenses for the test year for this account amounted to \$473,645 and the Attorney General suggests that this amount is abnormal. The Attorney General states an average of the expenses for this account for the test year plus the preceding four calendar years would be more representative. MCRECC does not agree with the Attorney General's contention for three significant reasons. One, an average of the suggested five year period is an amount appropriate for maybe year three, assuming this is a reasonable method of calculation, and does not include any inflation in these costs for or to the test period. Second, it provides no recognition to the increase in right of way maintenance costs greater than the general rate of inflation that utilities are experiencing nor does

it take into consideration the reduction in the number of providers of right of way maintenance which also increases costs. Third, MCRECC submits that the Attorney General has selectively chosen accounts where increases in expenses have occurred while ignoring accounts where decreases in expenses exist. MCRECC contends that the proper way is to view distribution operations and maintenance expenses in total and not on a piecemeal basis. MCRECC contends that the test year expenses for Account No. 593 are representative and appropriate for the expenses that it will incur in future years.

## II. Hardinsburg District Office

MCRECC completed the construction of a new district office at Hardinsburg, KY in May, 2006. MCRECC did not seek a Certificate of Public Convenience and Necessity because MCRECC felt that such a project was a part of its normal course of business. MCRECC contends that this construction was a part of its normal course of business for these reasons: a) this new building was a replacement for a former office building that was demolished; b) this building was placed on land already owned by the cooperative and was the site of the demolished office building; and c) the new building was built from general

funds. In further support of the actions of MCRECC, research was conducted by MCRECC's management and its cooperative attorney at that time and concluded that a certificate was unnecessary based on the Order issued in the In the Matter of : Application of Kenergy Corporation for a Certificate of Convenience and Necessity to Construct New Branch Offices in Hartford and Hanson, Case No. 2003-00403. If MCRECC was wrong in its conclusion that a Certificate of Public Convenience and Necessity was not needed, then MCRECC apologizes for its actions and will insure that such a situation will not occur in the future. MCRECC had no malicious intent in its actions in the construction of the new district office in Hardinsburg.

### III. Performance Bonus

MCRECC has used the Performance Bonus as an incentive to improve performance in three specific areas identified by MCRECC's Board of Directors:

1. Cost of service
2. Customer satisfaction
3. Reliability of service

This plan is a specific pay for performance, part of the overall compensation plan that MCRECC has for all its officers and employees. MCRECC fully recognizes the

changing landscape dealing with employee wages, salaries and benefits and has changed some of its programs because of this fact. The Performance Bonus is but one example. Another example is that MCRECC changed its pension program from a defined benefit plan to a defined contribution plan for employees hired on or after August 1, 2001. Also, MCRECC is currently paying only for the employee's and one-half of retiree's coverage in MCRECC's medical benefit plan as a means to better manage costs.

**IV. Rate Design**

Concern has been raised about the implementation of the increase for those rate classes receiving an increase: Schedule 1R and Schedule 2R. The customer charge is being raised in both classes at a much higher percentage than the increase in energy rates for both classes. The basis for this request is the cost of service study submitted as a part of the original application. Provided below are the current and proposed rates for both rate classes:

Rate Class	Customer Charge			Energy Charge per kWh		
	Present	Proposed	Percent Increase	Present	Proposed	Percent Increase
	\$\$	\$\$	%	\$\$	\$\$	%
Schedule 1R	8.00	9.90	23.8	0.05619	0.06010	7.0
Schedule 2R	9.63	15.00	55.8	0.06250	0.06474	3.6

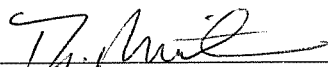
The purpose of the consumer charge is to serve as a means to recover the consumer related costs for a rate class. Schedule 4 of Exhibit R in the original application provides the consumer related costs for each rate class. For Schedule 1R and Schedule 2R, the consumer related costs are \$5,177,495 and \$ 322,726 respectively. With billing units for Schedule 1R of 290,052 and 19,754 for Schedule 2R, the customer charge should be \$17.85 for Schedule 1R and \$16.34 for Schedule 2R. The proposed rate design for Schedules 1R and 2R moves the rates of MCRECC closer to the costs to serve.

#### CONCLUSION

MCRECC has prepared and filed an application for the adjustment of its rates with the Commission that is consistent with the Capital Management Policy of the MCRECC Board of Directors and is in compliance with the mortgage requirements of lenders. MCRECC has taken the financially prudent approach to adjust electric rates often desiring to be in compliance with mortgage agreements and to pay capital credits to members. MCRECC does not wish to become engaged in crisis management that can result when a cooperative waits too long to seek an adjustment of rates, is in chronic violation of its mortgage agreements, and is in a cash shortfall situation.

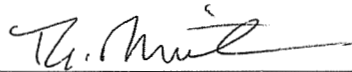


MCRECC has demonstrated that it needs the full amount of the increase requested and has utilized a Cost of Service Study to determine which rate classes are to receive increases along with the appropriate rate design for those rate classes. MCRECC respectfully request the Commission to approve its Petition.

  
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270(756-2184)  
Attorney for Petitioner  
Meade County Rural Electric Cooperative Corporation

CERTIFICATE OF SERVICE

The undersigned does hereby certify that the original and six (6) copies of this brief on behalf of Petitioner, Meade County Rural Electric Cooperative Corporation in Case No. 2006-00500 was mailed this 20, day of August, 2007 to Beth A. O'Donnell, Executive Director, Public Service Commission, 211 Sower Blvd., P. O. Box 615. Frankfort, KY, 40602 and to Gregory D. Stumbo, Attorney General, Rate Intervention Office, 1024 Capital Center Drive, Suite 200, Frankfort, KY 40601



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Thomas C. Brite, Esq.