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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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APR 22 2009

PUBLIC SERVICE
COMMISSION

In re the Matter of:

**CONSIDERATION OF THE NEW FEDERAL)
STANDARDS OF THE ENERGY) CASE NO. 2008-00408
INDEPENDENCE AND SECURITY ACT OF)
2007)**

**RESPONSE TO QUESTION 10 IN PSC 2nd DATA REQUEST
CHRISTOPHER S. PERRY
PRESIDENT AND CHIEF EXECUTIVE OFFICER
FLEMING-MASON ENERGY**

FILED: APRIL 21, 2009

1 **Q. Refer to Fleming-Mason’s response to Staff’s Initial Data Request, page 5, lines 18-21.**

2 **Fleming-Mason proposes “a mechanism for periodic review by the Commission to allow**
3 **recovery of increases in fixed costs.”**

4 **a. Provide a narrative explanation of the mechanics of such a mechanism. Include**
5 **in the explanation a discussion of how often Fleming-Mason suggest the Commission**
6 **perform the periodic review, as well as whether and how often a utility should be**
7 **required to file for a general rate review if such a mechanism is approved.**

8 **b. Explain whether the periodic review should incorporate any traditional**
9 **ratemaking adjustments. Identify any proposed adjustments.**

10 **A.** There are many factors that impact the recovery of margins for a cooperative. They include
11 load growth, economic conditions, cost of capital, inflationary pressures, weather, wholesale
12 power costs and costs associated with labor such as salary and benefits. Fleming-Mason
13 Energy (FME) was very fortunate in the 1990’s that industrial load growth was occurring and
14 wholesale power prices were stable and even declining. This led to a long period of time
15 without the need for a rate adjustment at the retail level.

16
17 However, the past decade has been characterized by increasing wholesale power costs and a
18 substantial decrease in residential load growth. In an effort to keep costs down, FME waited
19 longer than needed to file for a rate adjustment. This led to a decrease in cash, equity, and
20 TIER that will take a number of years of positive cash flow to recover. If there had been a
21 mechanism in place that would have allowed for a periodic rate adjustment, this problem
22 may not have occurred.

23

1 FME does not endorse any specific plan, but does support a change in regulation that would
2 permit a general rate case filing followed by yearly adjustments to rates upon review by the
3 Commission. For other cooperatives around the country, there is a mechanism in place that
4 requires a rate case to be filed every five years with a full cost of service study performed at
5 that time. This seems very reasonable for the cooperatives in Kentucky as well. Each year
6 following the full rate case there is a bandwidth adjustment made with Commission approval
7 based on some preset criteria. The criteria could be the TIER, equity, rate of return or any
8 other financial measure that is agreed upon.

9

10 This type of regulation is being used by cooperatives and investor-owned utilities in other
11 parts of the country. Entergy is one utility that is using this type of mechanism. This model
12 is used for most years, but full ratemaking procedures are used when there must be the
13 addition of large capital investments such as power plants or environmental controls.

14 Louisiana, Mississippi, Florida, and Tennessee have cooperatives that are using this type of
15 rate adjustment procedure.