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**PUBLIC SERVICE
COMMISSION**

February 1, 2018

Kentucky Public Service Commission
P.O. Box 615
Frankfort, KY 40602-0615

Commissioners:

Re: CASE NO. 2017-00374
Application of Big Sandy RECC for
a general adjustment of existing rates

The Attorney General (written comments in Case No. 2017-00367) and others have argued that a large percentage of the costs in operating and maintaining an electric distribution system, which generates no power, is dependent on the amount of energy that the distribution system delivers. This argument is incorrect and the history of the Net Operating and Maintenance Costs¹ of Big Sandy RECC is an excellent example of the error in this hypothesis. Over the past 10 years Big Sandy's energy sales have fallen 16%. During that same time, its Net O&M Costs have risen 34%. The total number of customers has gone down by only 1%. Those who have not looked at Big Sandy's operating costs in detail might argue that the rise in the Net O&M Costs is because of a lack of effort on Big Sandy's part. However, as the details below will show, Big Sandy has been doing a good job of managing its costs. The reality is that over 90% of all Net O&M Costs for an energy delivery company are related to the miles of line and the number of customers it has and independent of how much energy it delivers to the consumer.

The PSC continues a practice of placing a large part of an energy delivery company's recoverable costs in the variable energy (kWh) charge. This practice just hides from the consumer the true distribution delivery cost. This practice is inconsistent with the PSC's practice for gas delivery companies where the gas cost and the delivery cost are clearly discernable. Perhaps the PSC's so-called "gradualism" policy is targeted to eventually achieve consistency between the gas and electric utilities. However, as this "gradualism" policy has not been clearly defined in a written statement, it is almost impossible for a system governed by the PSC to work within constraints that are only known to the PSC.

Big Sandy faces many challenges but has been doing a good job in overcoming them. Some of the challenges it faces include:

- Many of its residential consumers are poor

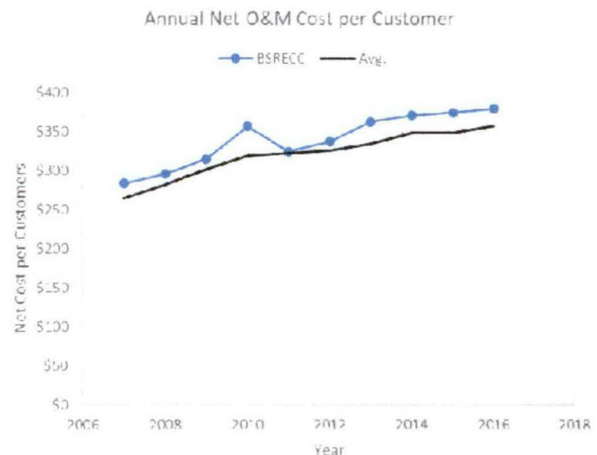
¹ Net Operating and Maintenance Costs is the Total Operation and Maintenance Expense shown on Page 15 Line 38 of an Electric Systems Annual Financial report less the cost of Power shown on Page 15 Line 1. This cost does not include expenses related to borrowing or depreciation.

- Because of the closing of coal mines and other economic factors in the region, its energy sales to consumers have been falling steadily over the last eight years. Between 2007 and 2016, total energy sales have fallen 16%. Sales to residences have fallen 12% and to industrial customers 28%
- The number of customers it serves has, over the last ten years, dropped only 1%. This means that almost all the reduction in energy use is because of less energy being consumed by its individual customers.
- Although the number of customers has decreased by 1%, Big Sandy has been required to expand its distribution system by 16 miles to bring service to new customers.
- Its service territory is heavily wooded and mountainous. This negatively impacts Big Sandy's reliability indices that it reports annually to the PSC. In 2016 its 5-year average SAIDI² was 201 whereas the average value for all the systems is 154.

One condition favorable to Big Sandy is that its customers seem to congregate together in the hollows so that Big Sandy has the third highest customer density per mile of line of the sixteen cooperatives supplied by East Kentucky Power Cooperative (EKPC). This is unusual for the region where their service territory lies. A neighboring system to its south has the lowest customer density of the sixteen systems.

Big Sandy has been doing well in managing its resources.

- Its Net Operating and Maintenance Costs per customer are only slightly above the average for the 16 EKPC systems. The chart to the right shows Big Sandy's Cost over the last ten years and the average cost for the 16 systems. Part of the reason for this is because of its high customer density. However, it is also in spite of the challenges of mountainous terrain and heavy forestation.



- Over the past 10 years, Big Sandy has reduced the number of employees by 4 full-time and one part-time positions. This represents about 10% of their headcount. Most of this reduction appears to have taken place at the beginning of the ten-year period used in this study so the cost reduction associated with this may not be showing up in the graph above. Reducing the number of employees without increasing outside contractor costs is, in reality, the only way to achieve significant permanent reductions in O&M costs.

² SAIDI – System Average Interruption Duration Index. It is a benchmark based on the length of outages and the number of customers affected. It is measured in minutes. The higher the value the worse the performance.

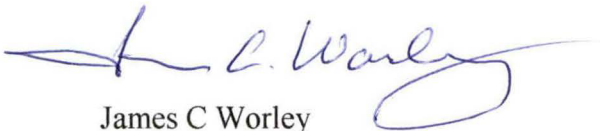
- Big Sandy's average payroll cost per employee in 2016 was 17% below the average for all 16 systems. Over the last ten years the rate of increase of its payroll cost per employee has been the third lowest of the systems.

In conclusion, Big Sandy RECC has been doing a good job of controlling its costs. Four of the sixteen EKPC-served distribution systems, that do not face the same challenges as does Big Sandy, have higher Net O&M Costs per customer. A fifth system, with similar challenges to Big Sandy, but with a very low customer density, has costs that are 40% higher than Big Sandy's.

Although Big Sandy is doing a good job of controlling costs, its costs are only about average. In school, average is a grade of 'C'. No one should want to be a 'C' student and Big Sandy should not be content with being average. It should take advantage of retirements and resignations to continue to reduce its number of employees, being careful not to compromise either safety or customer service.

I urge the Commission to favorably consider Big Sandy RECC's rate request. I also suggest that the Commission raise Big Sandy's residential customer charge to \$30 instead of the \$21 requested so that it covers 90% of the system's fixed costs and so that the customers can have a clear idea of what the actual cost of delivery is. Finally, if the Commission is going to have a practice of "gradualism" then it should be explained, in writing, so the utilities governed by the PSC can work within clear guidelines during their case preparations instead of having it brought up at the last minute during public hearings.

Respectfully,



James C Worley

c.: Big Sandy RECC
Attorney General

By way of disclosure: I am a retired engineer from both Kentucky Utilities and East Kentucky Power Cooperative. I have no personal or financial connection to Big Sandy RECC. I have not communicated with anyone at Big Sandy prior to sending them a copy of this letter which was done concurrent with sending it to the PSC.