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COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF BIG SANDY RURAL ELECTRIC )  
COOPERATIVE CORPORATION FOR A GENERAL ) Case No. 2017-00374  
ADJUSTMENT OF EXISTING RATES )

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**BIG SANDY RURAL ELECTRIC COOPERATIVE CORPORATION'S  
RESPONSE TO COMMISSION STAFF'S  
POST-HEARING REQUEST FOR INFORMATION**

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**Filed: April 6, 2018**

**Big Sandy Rural Electric Cooperative Corporation**  
**Case No. 2017-00374**  
**Commission Staff's Post-Hearing Request for Information**

1. State whether Big Sandy has performed any analysis evaluating the impact of an increase in the residential customer charge on low-, or fixed-, income customers. If so, provide a copy of that analysis.

**Response:**

Big Sandy had not conducted a formal analysis of this issue in advance of this Request for Information, but it did consider its low- and fixed-income customers when designing its proposed rates. That said, the basic financial impact of Big Sandy's proposed increased customer charge will be the same for each residential customer—a monthly bill increase of \$6.25.

Big Sandy believes that focusing its proposed rate increase on the customer charge reflects an equitable apportionment of the fixed costs necessarily incurred to serve each customer; moreover, Big Sandy asserts that all customers (including low- and fixed-income customers) will benefit from a rate design rooted in cost-of-service principles that minimizes monthly bill volatility and concurrently allows the Cooperative to operate under a more predictable and accurate budget.

Of course, Big Sandy recognizes that *any* increase in residential rates is likely to affect low- and fixed-income customers somewhat more significantly than those customers of average or above-average means, primarily because customers in the former categories must spend a proportionally-greater amount of their incomes on power expenses compared to customers in the latter categories. In light of this fact, Big Sandy remains committed to ensuring all its customers have access to affordable electric service, and often works with customers (through LIHEAP, Prepay options, etc.) whose circumstances present unique needs. However, based on reasonable consideration of available information and data, Big Sandy believes the rate design it has proposed in this case does *not* exacerbate the impact of a residential rate increase on low- and fixed-income customers. To the contrary, Big Sandy believes that an increase to its fixed customer charge, rather than a significant increase in its volumetric energy charge, is generally more advantageous to its low- and fixed-income customers at this time.

Support for Big Sandy's conclusion in this regard is relatively straightforward. The cooperative's low-income customers generally consume significantly more energy than other residential customers.<sup>1</sup> Because a rate design that more heavily favors recovery of costs through volumetric charges (rather than fixed charges) necessarily means that higher energy users bear a proportionally-greater burden of any increase than lower energy users, Big Sandy's low-income customers would generally experience relatively higher monthly bills than if Big Sandy's proposed rates were approved as filed. Moreover, it warrants repeating that monthly bill volatility increases the more a customer's bill is based on consumption, which can be particularly difficult for low- and fixed-income customers.

The primary contention often raised in opposition to a proposed residential rate adjustment allocated substantially to an increased fixed customer charge is that it diminishes a low- or fixed-income customer's ability to minimize costs through conservation and energy efficiency. Initially, it is important to note the inherent problem with this argument from the perspective of the cooperative's ongoing financial health—essentially, it presumes at the outset that customers will change their consumption patterns following a rate increase, which means the new rates (designed and dependent on a certain amount of expected consumption) will not yield revenues sufficient to maintain adequate margins. This predicament aside, the argument also presupposes that low- and fixed-income customers are readily capable of avoiding costs by using less energy, which in many cases they are not. Furthermore, because the great majority of all residential customer bills consist of charges based on usage (even after increasing the customer charge to move closer to cost-of-service), there continues to be opportunity to reduce costs through conservation and similar measures if the customer has the desire and means to implement the same. For these reasons, low- and fixed-income customers in Big Sandy's service territory would generally not benefit from a rate design that continues to rely disproportionately upon volumetric charges for the recovery of both fixed and variable costs.

When designing its rates, Big Sandy's overarching goal was to institute fair, just and reasonable rates considering both the constituencies of the discreet classes of the cooperative and the membership as a whole. Big Sandy believes the rates it has proposed satisfy these objectives and requests their approval.

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<sup>1</sup> Please see Big Sandy's Response to Item No. 2 of this Request for Information, which demonstrates that Big Sandy's average "low- or fixed-income" customer consumes approximately 34% more energy each month than the average customer in the residential rate class.

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2. State whether Big Sandy has performed any analysis to determine whether its low-, or fixed-, income customers consume more or less energy than the average residential customer. If so, provide a copy of that analysis.

**Response:**

Big Sandy performed an analysis to compare the consumption of a random sample of low- or fixed-income customers with the consumption of the residential class as a whole for the test period. For this analysis, Big Sandy defined “low- or fixed- income customers” as those receiving assistance from LIHEAP for paying energy bills.

Using February 2018 as an example, Big Sandy identified approximately 200 customers that received energy assistance payments. Because Big Sandy does not have an automated way to report the average consumption of these customers, Big Sandy conducted a manual analysis of the average test year consumption of 50 of these customers chosen at random, which produces a margin of error of approximately  $\pm 12\%$  at a 95% confidence level.

For the sample of low- or fixed-income customers, the average consumption is 1,472 kWh per month. See table on page 2 of this response.

The average consumption for the residential class is 1,094 kWh per month; see Exhibit JW-9, page 2 of 9 (156,340,059 kWh / 142,925 customer months = 1,094 kWh / customer per month). This amount includes the customers receiving energy assistance payments, which means that the average consumption by customers *not* receiving such assistance is less than 1,094 kWh per month.

This result shows that Big Sandy’s low- or fixed-income customers consume approximately 34% more energy than the average residential customer.

**Sample Low-Income Customer Average Test Year Consumption**

#	Acct	Test Year Avg kWh	#	Acct	Test Year Avg kWh
1	00062832001	1,254	26	00064903001	1,757
2	00050588002	1,196	27	00053631004	1,223
3	00026969001	666	28	00004521002	1,309
4	00008651001	1,214	29	00050712001	853
5	00053347002	899	30	00065537001	958
6	00007219003	1,231	31	00061708001	1,596
7	00059499001	1,758	32	00053846002	2,409
8	00063167002	1,942	33	00065953001	1,074
9	00059654001	1,829	34	00016969001	669
10	00064883001	933	35	00055060002	1,518
11	00061651001	1,292	36	00056798001	1,382
12	00025578001	834	37	00052093001	1,253
13	00042205002	1,106	38	00035624002	1,753
14	00052579001	2,518	39	00037937002	1,824
15	00062239001	1,189	40	00051035001	1,317
16	00059495002	946	41	00001948001	1,580
17	00052967002	1,270	42	00060956003	1,087
18	00062289002	2,295	43	00055263001	1,317
19	00043577001	1,585	44	00061210001	1,817
20	00007916003	1,115	45	00043174001	3,979
21	00065221001	1,436	46	00054607003	1,850
22	00043009001	1,618	47	00037495001	1,130
23	00001608002	1,675	48	00061864001	1,768
24	00042998002	1,634	49	00053891001	2,121
25	00000882001	478	50	00064812001	2,122
<b>AVERAGE</b>					<b>1,472</b>

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3. In addition to the cost containment measures already identified in the Direct Testimonies of Bobby Sexton and Billy O'Brian Frasure, provide any additional measure(s) that Big Sandy will consider or implement in the future and the associated dollar savings that would be accomplished by each.

**Response:**

In addition to the cost containment identified in the Direct Testimonies of Bobby Sexton and Brian Frasure, Big Sandy has implemented or is considering implementing the following cost containment measures:

- (1) Big Sandy changed from mailing issues of Kentucky Living Magazine to consumers monthly to doing so bi-monthly. This is expected to save Big Sandy approximately \$30,000 annually.
- (2) Big Sandy is considering reformatting its annual meeting to minimize the costs thereof beginning in 2019. These efforts are expected to include changing the location of the meeting to a less expensive venue and reducing costs associated with personnel and food. Big Sandy is hopeful that these measures will result in total cost savings for the cooperative in the future of between \$10,000 and \$20,000 annually.

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4. Refer to the Direct Testimony of Billy O'Brian Frasure, page 12, regarding the cost containment measures that have been undertaken by Big Sandy since 2012 to avoid or minimize an increase in its rates. Provide a quantification of the cost savings realized or to be realized by each of the cost containment measures that have been implemented by Big Sandy.

**Response:**

The items referenced on page 12 of the Direct Testimony of Brian Frasure are:

- A. Refinancing of Long-Term RUS Debt with CFC (Case No. 2017-00190): Here the projected savings are approximately \$1.3 million over the life of the loan with CFC. Annualized over a 20 year period, this is an approximate savings of \$65,000 annually. This amount is already reflected in the *pro forma* test year revenue requirement in Revised Exhibit JW-2 in Reference Schedule 1.05, Interest on Long-Term Debt.
- B. Reduced Employee Headcount: Here the projected savings associated with employee departures (through retirement, elective departure, or layoff, net of backfill) is estimated at \$195,000 annually. This amount is already reflected in the *pro forma* test year revenue requirement in Revised Exhibit JW-2 in Reference Schedule 1.01, Wages & Salaries.
- C. Requiring Employee Contributions to Health Insurance Premiums: Here the projected savings associated with requiring employee contributions to the cost of health insurance premiums is estimated at \$60,800 annually. This amount is included in the \$156,584 amount already removed from the *pro forma* test year revenue requirement in Revised Exhibit JW-2 in Reference Schedule 1.18, Employee Healthcare.
- D. Decreased Right of Way ("ROW") Expenditures: Big Sandy achieved savings of approximately \$25,000 on its ROW and vegetation management by discontinuing use of contract labor during 2017; however, to quantify the savings going forward is difficult because the curtailment of those expenditures was driven entirely by the financial

condition of the cooperative. While Big Sandy will continue to do as much ROW and vegetation management as possible internally, Big Sandy cannot state with certainty that the cost savings achieved will be recurrent.

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5. Provide a description of the accounting procedure for transferring unclaimed retired capital credits to donated capital when the rightful owners or heirs cannot be located, including time frames.

**Response:**

Every year Big Sandy's margins are transferred to Account 201.10 – Patrons Capital Credits. Once margins are transferred, they remain in Account 201.10 until either a general retirement of capital credits is issued or until an individual estate retirement is issued.

If a general retirement of capital credits were to be issued, Big Sandy would determine the appropriate year-end allocation to each member and issue a check in that same amount. The check would be mailed to the address Big Sandy has on file for each member. In the event the check is returned to Big Sandy and is not claimed or if the check is not cashed within ninety (90) days, it becomes void and after a reasonable time Big Sandy will thereafter record those amounts into Account 217.00 - Retired Capital Credit-Gain.

In an individual estate retirement situation, Big Sandy would never be aware of a member's death unless and until his/her estate comes forward and makes a claim to be paid the amount of capital credits allocated to the decedent at the time of death. If this was to occur, Big Sandy would pay such amount to the decedent's estate by check. The only scenario in which an estate retirement would be transferred to Account 217.00 would be if a check to an estate is written and for some reason is either unclaimed by the decedent's estate or is not cashed within ninety (90) days. As might be expected, this rarely occurs.

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6. Provide a list of the seven customers who are currently served under Schedule LPR - Large Power Service.

**Response:**

The seven (7) accounts currently served under Schedule LPR include:

- (1) Martin County Board of Education
- (2) Bureau of Vocational Rehabilitation
- (3) Paintsville City Water Plant
- (4) Highlands Regional (Medical Office Building)
- (5) Beech Fork Processing (Idle Coal Mine)
- (6) Beech Fork Processing (Idle Coal Mine)
- (7) Big Sandy Hardwood

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7. Refer to the Supplemental Direct Testimony of John Wolfram, Revised Exhibit JW-2, page 30 of 38.
- a) Provide detailed support for the estimated number of minutes required by Office/Clerical Personnel for each of the Miscellaneous Service Charge items.
  - b) Explain why Meter Test requires more Office/Clerical Personnel time than the other Miscellaneous Service Charge items.
  - c) Explain why processing a returned check takes more time than processing connect or reconnect services.
  - d) Explain why processing an after-hours reconnection takes longer than processing a reconnection during regular business hours.

**Response:**

- (a) The estimated number of minutes required to perform the listed tasks were based on the input and feedback of office and clerical personnel who perform the duties related to each of the Miscellaneous Charges.
- (b) The Meter Test requires more time because of the particular tasks required to properly perform the meter test activities. The Customer Service Representative ("CSR") receives the request from the consumer for a meter test. The CSR notifies the Meter Department of the request. Meter Department Personnel (Field personnel) will travel to the location of meter which consumer has requested to be tested. The meter is retrieved and returned to the office for testing. Once the meter is returned to the office, it is tested to determine if it is faulty. If no fault can be found in the meter, the consumer will be charged the current service charge fee. This requires additional time of a CSR to prepare a miscellaneous service charge document and forward that to the billing clerk who adds the charge on to consumer bill. Summing the estimated (office/clerical) time required for CSR to take the request of the consumer for the meter test, the time required for the meter to be tested at office, the time required for CSR to write up bill, and the time required for the billing clerk to add the charge on to the consumers bill, Big Sandy believes that 25 minutes is a very reasonable time estimate for a meter test charge.
- (c) The time involved for a returned check charge takes more time than processing connect or reconnect services because the returned check process requires rebilling

and also requires adjustments to the general ledger. The process includes several steps: the CSR receiving the returned check and writing up an adjustment to remove the payment from the consumers account and writing up the returned check charge to be added on to the consumers account. The adjustment and the miscellaneous service charge are forwarded to the billing clerk. The billing clerk removes the payment from the consumers account and adds the returned check charge. Documentation is then forwarded to the general accounting clerk who records a journal entry to remove the payment from general ledger. This process easily takes the estimated 20 minutes.

- (d) Please see the Response to the Commission Staff's Second Request for Information, Item 15 (e).

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ADJUSTMENT OF EXISTING RATES )

VERIFICATION OF BILLY O'BRIAN (BRIAN) FRASURE

COMMONWEALTH OF KENTUCKY )
)
COUNTY OF JOHNSON )

Billy O'Brian (Brian) Frasure, being duly sworn, states that he has supervised the preparation of certain of the responses of Big Sandy Rural Electric Cooperative Corporation to Commission Staff's Post-Hearing Request for Information in the above-referenced case and that the matters and things set forth in his responses are true and accurate to the best of his knowledge, information and belief, formed after reasonable inquiry.

Billy O. Frasure
Billy O'Brian (Brian) Frasure

The foregoing Verification was signed, acknowledged and sworn to before me this 5th day of April, 2018, by Billy O'Brian (Brian) Frasure.

Judy McClure
NOTARY PUBLIC
Commission expiration: 6-19-2018

