

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF JACKSON)	
PURCHASE ENERGY CORPORATION FOR A)	CASE NO.
GENERAL ADJUSTMENT IN EXISTING RATES)	2019-00053

ORDER

On March 29, 2019, Jackson Purchase Energy Corporation (Jackson Purchase Energy), pursuant to the pilot “streamlined procedure” established in Case No. 2018-00407 (Streamlined Rate Order),¹ filed an application seeking a general adjustment in its rates, with a proposed effective date of April 29, 2019. By Order dated April 11, 2019, the Commission accepted Jackson Purchase Energy’s application pursuant to the “streamlined procedure” established in Case No. 2018-00407. The April 11, 2019, Order also established a procedural schedule for processing this case, setting forth deadlines for intervention requests, one round of discovery upon Jackson Purchase Energy, and the submission of comments. Pursuant to the streamline procedures and the Commission’s April 1, 2019, Order, the Attorney General of the Commonwealth of Kentucky, through the Office of Rate Intervention (Attorney General) was made a party to the case. On April 22, 2019, the Commission issued an Order, pursuant to KRS 278.190(2), that suspended the effective date of the proposed rates for five months, up to and including September 27, 2019.

¹ Case No. 2018-00407, *A Review Of the Rate Case Procedure For Electric Distribution Cooperatives* (Ky. PSC Mar. 26, 2018).

The Attorney General is the only intervenor in the case. Jackson Purchase Energy responded to one round of information request from Commission Staff and one round of information request from the Attorney General, and participated in a conference call with both Commission Staff and the Attorney General to clarify some information in its application. On May 20, 2019, the Attorney General and Jackson Purchase Energy also separately filed comments on Jackson Purchase Energy's application.

BACKGROUND

Jackson Purchase Energy is a non-profit member-owned rural electric cooperative corporation, organized under KRS Chapter 279. It is engaged in the distribution and sale of electric energy to 30,073 customers in Ballard, Carlisle, Graves, Livingston, McCracken, and Marshall counties, Kentucky.² Jackson Purchase Energy does not own any electric generating facilities and is one of three distribution cooperatives that receive wholesale power from Big Rivers Electric Corporation. Jackson Purchase Energy's last general rate adjustment was based on a settlement and was approved on June 17, 2008.³

TEST PERIOD

Pursuant to the Streamlined Rate Order, Jackson Purchase Energy is using a historical test period for the year ended December 31, 2018.⁴

² Annual Report of Jackson Purchase Energy Corporation to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2018 (filed Mar. 29, 2019) at pages 45 and 53.

³ Case No. 2007-00116, *General Adjustment of Electric Rates of Jackson Purchase Energy Corporation* (Ky. PSC June 18, 2007).

⁴ Case No. 2018-00407, *A Review Of the Rate Case Procedure For Electric Distribution Cooperatives* (Ky. PSC Dec. 11, 2018) at 8.

JACKSON PURCHASE ENERGY'S PROPOSAL

Jackson Purchase Energy requests an overall increase of 2 percent, or \$1,325,207, to its revenue requirement to meet a Times Interest Earned Ratio (TIER) of 2.0⁵ and to meet an Operating Times Interest Earned Ratio (OTIER) of 1.74.⁶ Jackson Purchase Energy proposes to allocate 100 percent of the requested revenue increase to the residential class customer charge. Jackson Purchase Energy proposes to increase the residential customer charge by 35 percent from \$12.45 per month to \$16.78 per month.⁷ According to Jackson Purchase Energy, this will result in an increase of \$4.33, or 3.2 percent, on the monthly bill of an average residential member.⁸

Jackson Purchase Energy states that the rate increase is necessary because it has experienced increased operating expenses coupled with slowed customer growth since its last base rate increase in 2008.⁹ Jackson Purchase Energy also states that its existing rates do not align with its cost of providing service, causing subsidization between customer classes and, without an adjustment to its rates, Jackson Purchase Energy may not be able to meet its loan obligations and imperil its ability to provide safe and reliable service.¹⁰

⁵ Direct Testimony of John Wolfram (Wolfram Testimony) p. 8, lines 4–11. Jackson Purchase Energy's application on page 2 states that the proposed revenue increase is \$1,326,530. The Wolfram Testimony on page 26 explains that the proposed rates do not generate the exact revenue deficiency of \$1,325,207, but rather \$1,326,530, which reflects an insignificant difference of \$1,323 or 0.1 percent.

⁶ Wolfram Testimony at p. 8.

⁷ *Id.* at 25.

⁸ *Id.* at 26.

⁹ Application, Exhibit 1.

¹⁰ *Id.*

Jackson Purchase Energy proposes to address the cross-subsidization between and amongst the customer classes by increasing the customer charge for the residential class and allocating the revenue increase to the residential customer class. Pursuant to the Streamlined Rate Order, Jackson Purchase Energy filed an updated Cost-of-Service Study (COSS) supporting a residential customer charge of \$30.24.¹¹

INTERVENOR COMMENTS

The Attorney General objects to Jackson Purchase Energy's use of the streamlined rate procedure because 11 years have elapsed since Jackson Purchase Energy's last general adjustment of rates.¹² The Attorney General states that, as a result of the time since the last rate increase, he cannot take at face value Jackson Purchase Energy's statements of good corporate and financial governance.¹³ The Attorney General asserts that the streamlined procedure should be reserved for distribution cooperatives that have had a more recent general adjustment of rates.¹⁴

While acknowledging that Jackson Purchase Energy, pursuant to the Streamlined Rate Order, made certain pro forma adjustments to its operations for the test year, the Attorney General asserts that Jackson Purchase Energy should have made additional pro forma adjustments, consistent with Commission precedent.¹⁵ Specifically, the Attorney General asserts that the Commission should make further adjustments to employee contributions for healthcare and other operating expenses to conform to current

¹¹ Wolfram Testimony, Exhibit JW-3 at 2.

¹² Supplemental Comments of the Attorney General (Attorney General's Comments) at 2.

¹³ *Id.*

¹⁴ *Id.* at 3.

¹⁵ *Id.*

Commission precedent.¹⁶ The Attorney General also raised several issues relating to increases in wages and salaries, particularly with an eye to executive compensation, and exhorted the Commission to caution Jackson Purchase Energy to keep such increases reasonable.¹⁷

The Attorney General argues that Jackson Purchase Energy's COSS allocation is improper because it improperly allocates the cost of poles based on the number of customers, but this does not correlate with Jackson Purchase Energy's customer count based on the zero-intercept study Jackson Purchase Energy provided in the response to the Attorney General's request for information.¹⁸ The Attorney General asserts that Jackson Purchase Energy has not provided sufficient evidence either to justify its use of the minimum system method or to allow the Attorney General to offer evidence to counter Jackson Purchase Energy's proposals that borrow from the COSS.¹⁹

The Attorney General also objects to the increase in the residential customer charge, asserting that it is an increased barrier to energy conservation and customers that receive bill assistance.²⁰ The Attorney General requests that the Commission follow its principles of gradualism to mitigate the impact of the increase in the customer charge.²¹

¹⁶ *Id.*

¹⁷ *Id.* at 3-4.

¹⁸ *Id.* at 4.

¹⁹ *Id.* at 5.

²⁰ *Id.*

²¹ *Id.* at 5-6.

DISCUSSION

Rate Base

Jackson Purchase Energy determined a net investment rate base of \$100,554,060, based on the adjusted test-year-end value of plant in service and construction work in progress (CWIP), the 13-month average balances for materials and supplies and prepayments; plus a cash-working capital allowance, minus the adjusted accumulated depreciation; the test-year-end level of customer advances for construction (Customer Advances); and consumer deposits.²² The Commission notes an error on this tab on which consumer deposits were entered as a negative and then subtracted; however, they should have been entered as a positive and then subtracted.²³ With this adjustment, Jackson Purchase Energy's proposed rate base and the net investment rate base for ratemaking purposes is as follows:²⁴

Utility Plant in Service	\$ 159,055,261
CWIP	<u>1,671,255</u>
Total Utility Plant	\$ 160,726,516
Add :	
Materials & Supplies	\$ 2,114,292
Prepayments	410,006
Cash Working Capital	<u>1,216,275</u>
Total Additions	\$ 3,740,573
Deduct:	
Accumulated Depreciation	\$ (66,201,524)
Customer Deposits	<u>(2,288,496)</u>
Total Deductions:	\$ (68,490,021)
Net Investment Rate Base	\$ 95,977,068

²² Application, JPEC-COS-Filed.xlsx, Func & Classif tab.

²³ See Jackson Purchase Energy 2018 Annual Report, page 8 of 59.

²⁴ Jackson Purchase Energy later corrected this error in the JPEC-Cos-Revised 6-13-2019.xlsx.

Revenue and Expenses

Jackson Purchase Energy proposed 15 adjustments to normalize its test-year operating revenues and expenses per the streamlined application. The Commission finds that 14 adjustments proposed by Jackson Purchase Energy are reasonable and should be accepted without change. The Commission finds that rate case expense should be modified. Jackson Purchase Energy estimated its rate case expense at \$76,000 in its application and proposed to recover this expense through a three-year amortization period. In a response to the Attorney General's First Request for Information, Item 30, Jackson Purchase Energy stated that its total rate case expense as of May 1, 2019, was \$87,034.²⁵ The Commission finds this amount reasonable and that a three-year amortization of these expenses will result in an increase in operating expenses of \$3,678 over the \$25,333 proposed in the application. Shown below are the Commission approved adjustments:²⁶

Fuel Adjustment Clause (FAC)	\$	59,234
Environmental Surcharge	\$	(138,160)
Member Rate Stability Mechanism	\$	372,461
Non-FAC Purchase Power Adjustment	\$	(7,797)
Rate Switching	\$	(331,975)
Donations, Advertising, & Dues	\$	145,020
401k Contributions	\$	39,901
Life Insurance	\$	5,186
Rate Case Costs	\$	(29,011)
Interest	\$	43,007
Year-End Customers	\$	36,409
Wages and Salaries	\$	(320,127)
Non-Operating Income	\$	(41,846)
Depreciation Normalization	\$	(51,519)
Directors Expenses	\$	16,215
TOTAL	\$	(203,002)

²⁵ Jackson Purchase Energy Supplemental Response to Attorney General's First Request for information, Item 30 filed June 7, 2019.

²⁶ Wolfram Testimony, Exhibit JW-2 page 2. Updated for the Rate Case expense.

Healthcare

Jackson Purchase Energy did not make a pro forma adjustment reflecting healthcare insurance premiums stating that it was not required pursuant to the Streamline Rate Order as employee healthcare insurance premium contribution is not zero.²⁷ Currently, bargaining employees pay 10 percent of their healthcare premium and non-bargaining employees pay 5 percent. This amount is bundled as one premium and consists of medical, dental, and vision.²⁸ The Attorney General proposes to adjust employee contributions for healthcare based on the national average for coverage consistent with the Commission's recent orders.²⁹ The referenced orders have held that employee benefits are unreasonable if they exceed benefits that are market competitive and in general rate cases filed since 2016 in which a utility sought to recover its expenses for the payment of 100 percent of its employees' health insurance premiums, the Commission has reduced test-year expenses for health insurance premiums to levels based on national average employee contribution rates.³⁰ However, if the employee is

²⁷ Wolfram Testimony at 16 lines 5–7.

²⁸ Wolfram Testimony, Exhibit 35_Contribution_share_of_Insurance_Premiums.xlsx.

²⁹ Attorney General's Comments at 3.

³⁰ See, e.g., Case No. 2016-00434, *Application of Shelby Energy Cooperative, Inc. for an Increase in its Retail Rates* (Ky. PSC July 1, 2017) Final Order at 6-7; Case No. 2016-00367, *Application of Nolin Rural Electric Cooperative Corporation for a General Rate Increase* (Ky. PSC June 21, 2017) Final Order at 10-11 ; Case No. 2016-00365, *Application of Farmers Rural Electric Cooperative Corporation for an Increase in Retail Rates* (Ky. PSC May 12, 2017) Final Order at 6-7; Case No 2016-0017 4, *Electronic Application of Licking Valley Electric Cooperative Corporation for a General Rate Increase* (Ky. PSC Mar. 1, 2017) Final Order at 18; and Case No. 2017-00349, *Electronic Application of Atmos Energy Corporation for an Adjustment of Rates and Tariff Modifications* (Ky. PSC May 3, 2018) Final Order at 19.

contributing at a reasonable rate, the Commission has not always made the corresponding adjustment based on the national average contribution rates.³¹

The Commission, due to the varied nature in which it has made adjustments to health insurance contributions, now finds that it should establish a policy delineating when a utility's employees' insurance contribution levels are sufficient to avoid Commission adjustment of the contributions to the national average. Accordingly, the Commission finds that as long as the employee contribution rate for health insurance is at least 12 percent, it will not make a further adjustment to the national average. If a utility's employees' health insurance contribution is less than 12 percent, the Commission will adjust all contributions to the national average.

³¹ The Commission recently has noted that it would not adjust to the national average *if* the utility's employees were making a contribution and that the utility would consider increasing the employee contribution in the future. For example, the Commission has found:

The Commission notes that Northern Kentucky District has taken initial steps to address the Commission's findings in other rate cases that employees should reasonably participate in the cost of their health and dental insurance premiums in order for rates to be fair, just, and reasonable to both ratepayers and the utility. The Commission further notes that Northern Kentucky District implemented employee cost participation in health and dental insurance premiums of 5 percent, which is significantly lower than the employee cost participation of 21 percent for average single coverage and 32 percent for family coverage that the Commission has found reasonable for those utilities that do not require employee contributions to health and dental insurance. The Commission encourages Northern Kentucky District to consider increasing the actual percentage. The Commission could make an adjustment in future rate cases if the actual percentage of employee cost participation is significantly below the standard statistical average percent participation.

The Commission finds this adjustment reasonable and therefore accepts the adjustment to employee health and dental insurance expenses.

Case No. 2018-00291, *Electronic Application of Northern Kentucky Water District for an Adjustment of Rates; Issuance of Bonds; Financing; and Tariff Revisions*, (Ky. PSC Mar. 26, 2019) at 8. (Footnote omitted).

This policy, however, does not affect employee contributions for other insurance such as dental and vision. The Commission will continue to review those on a case by case basis for adjustments. However, because the national average contribution rate for employees to these types of insurance is higher than the national average for health insurance contributions, the further the employee contribution rate is from the national average, the more likely the Commission will adjust the national average for those contributions.

Jackson Purchase Energy began the policy of splitting the contribution of any incremental increases between the utility and employee 80 percent and 20 percent, respectively in 2006, and in 2009, employees began contributing to these increases.³²

Because Jackson Purchase Energy's current health insurance premium is bundled for medical, vision, and dental, whereas the national averages are based on the individual medical, vision, and dental premiums, adjusting the employee contributions for vision and dental insurance to the national average for those types of contributions cannot be calculated. Therefore, the Commission will adjust both bargaining and non-bargaining employee contributions for medical, dental, and vision insurance to a 12 percent contribution rate. The Commission cautions, however, that future applications that do not provide specific detail regarding contribution rates for each type of insurance may not qualify for the streamlined procedure, and the Commission expects Jackson Purchase Energy, in its next application for a general adjustment of rates, to include this information.

³² Jackson Purchase Energy's Response to Staff's First Request for Information (Jackson Purchase Energy's Response to Staff's First Request), Item 14.

Based upon Jackson Purchase Energy's total health care costs, adjusting for a 12 percent contribution rate for bargaining and non-bargaining employees, the Commission finds that health insurance expense should be decreased by \$20,743.³³

Wages and Salaries

The Attorney General stated concerns regarding increases to wages and salaries, in particular, the \$111,864 increase over test-year wages for the President and Chief Executive Officer (CEO).³⁴ The current President and CEO was recently hired in April of 2018.³⁵ Jackson Purchase Energy stated that the salary offered was the result of good faith negotiations and was necessary and appropriate following an executive search process and is indicative of the need to attract and obtain a highly competent and experienced President and CEO.³⁶ The Attorney General also expressed concern over other wage and salary increases.³⁷ In the evaluation of salaries and wages, the Commission recognizes that some salary increases were the result of matching current employees in similar positions with new hires.³⁸ The Commission recognizes that a utility is a price taker in a competitive market and must match the market price in order to attract and retain competent leadership. Therefore, the Commission encourages Jackson Purchase Energy to continue wage and salary surveys between it and not only its industry

³³ JPEC-RevReg-Revised 06-13-2019.xlsx, Tab 1.16 Health.

³⁴ Attorney General's Comments at 3.

³⁵ Application, Direct Testimony of Jeffrey R. Williams at 2.

³⁶ Jackson Purchase Energy's Response to Staff's First Request, Item 4

³⁷ Attorney General's Comments at 3.

³⁸ Jackson Purchase Energy's Response to the Attorney General's First Request for Information, Item 3 where the salary of the Engineering and Operations Vice President was increased 11.6 percent to match and stay compatible with the salary of the Finance & Member Services.

peers, but also the geographic market and maintain a level of competitiveness that is representative of both and any wage and salary increase be supported by such wage and salary surveys and cost-of-living adjustments.³⁹

Pro Forma Adjustments Summary

The effect of the pro forma adjustments on Jackson Purchase Energy's net income is as follows:

Description (1)	Actual Rates Actual Test Yr (2)	Pro Forma Adjustment (3)	Present Rates Adj Test Yr (4)	Proposed Rates Adj Test Yr (5)
<u>Operating Revenues</u>				
Total Sales of Electric Energy	69,594,978	(4,728,533)	64,866,445	66,174,587
Other Electric Revenue	1,293,318	-	1,293,318	1,293,318
Total Operating Revenue	70,888,296	(4,728,533)	66,159,763	67,467,905
<u>Operating Expenses:</u>				
Purchased Power	53,014,406	(4,718,706)	48,295,700	48,295,700
Distribution Operations	2,737,035	63,314	2,800,349	2,800,349
Distribution Maintenance	3,502,718	96,441	3,599,159	3,599,159
Customer Accounts	1,292,803	54,183	1,346,986	1,346,986
Customer Service	81,347	4,583	85,930	85,930
Sales Expense	-	-	-	-
A&G	2,116,296	(96,447)	2,019,849	2,019,849
Total O&M Expense	62,744,605	(4,596,631)	58,147,974	58,147,974
Depreciation	5,696,129	51,519	5,747,648	5,747,648
Taxes - Other	81,520	-	81,520	81,520
Interest on LTD	2,124,754	(82,948)	2,041,806	2,041,806
Interest - Other	17,395	39,941	57,336	57,336
Other Deductions	1,915	-	1,915	1,915
Total Cost of Electric Service	70,666,318	(4,588,119)	66,078,199	66,078,199
Utility Operating Margins	221,978	(140,414)	81,564	1,389,706
Non-Operating Margins - Interest	382,496	-	382,496	382,496
Income(Loss) from Equity Investments	-	-	-	-
Non-Operating Margins - Other	59,456	(41,846)	17,610	17,610
G&T Capital Credits	-	-	-	-
Other Capital Credits	251,994	-	251,994	251,994
Net Margins	915,924	(182,260)	733,664	2,041,806

³⁹ *Id.*, Item 21. Wage and Salary surveys filed under confidentiality seal.

Revenue Requirement

Jackson Purchase Energy's actual TIER excluding Generation and Transmission Capital Credits (GTCC) for the test period was 1.43.⁴⁰ Jackson Purchase Energy's OTIER for the test period was 1.16.⁴¹ Jackson Purchase Energy's request is to "catch up" to 11 years' worth of escalating costs, which Jackson Purchase Energy said it mitigated with cost containment activity.⁴² Jackson Purchase Energy notes that the utility does not face any impending financial-metric defaults rather this increase better aligns its various customer classes with their cost to serve in a measured fashion.⁴³ Jackson Purchase Energy proposes an increase in base electric rates of \$1,325,207 to achieve a 2.0X TIER excluding GTCCs.

Based upon the pro forma adjustments found reasonable herein, the Commission has determined that an increase in revenues from base rates of \$1,308,142 would result in a TIER of 2.0X as shown in the table below. This additional revenue should produce net margins of \$2,041,806. The Commission has determined that the above increase in revenues should result in an OTIER of 1.74X. Based on the net investment rate base of \$95,977,068 found reasonable herein, this additional revenue should result in a rate of return on rate base of 4.50 percent.

⁴⁰ Application, Wolfram Testimony, Exhibit JW-2, page 1.

⁴¹ *Id.*

⁴² Application Grissom Testimony at 8.

⁴³ *Id.* at 8–9.

Description (1)	Actual Rates Actual Test Yr (2)	Pro Forma Adjustment (3)	Present Rates Adj Test Yr (4)	Proposed Rates Adj Test Yr (5)
<u>Operating Revenues</u>				
Total Sales of Electric Energy	69,594,978	(4,728,533)	64,866,445	66,174,587
Other Electric Revenue	1,293,318	-	1,293,318	1,293,318
Total Operating Revenue	70,888,296	(4,728,533)	66,159,763	67,467,905
<u>Total O&M Expense</u>				
Total O&M Expense	62,744,605	(4,596,631)	58,147,974	58,147,974
Depreciation	5,696,129	51,519	5,747,648	5,747,648
Taxes - Other	81,520	-	81,520	81,520
Interest on LTD	2,124,754	(82,948)	2,041,806	2,041,806
Interest - Other	17,395	39,941	57,336	57,336
Other Deductions	1,915	-	1,915	1,915
Total Cost of Electric Service	70,666,318	(4,588,119)	66,078,199	66,078,199
<u>Utility Operating Margins</u>				
Utility Operating Margins	221,978	(140,414)	81,564	1,389,706
Non-Operating Margins - Interest	382,496	-	382,496	382,496
Income(Loss) from Equity Investments	-	-	-	-
Non-Operating Margins - Other	59,456	(41,846)	17,610	17,610
G&T Capital Credits	-	-	-	-
Other Capital Credits	251,994	-	251,994	251,994
Net Margins	915,924	(182,260)	733,664	2,041,806
<u>Cash Receipts from Lenders</u>				
Cash Receipts from Lenders	124,779		124,779	124,779
OTIER	1.16		1.10	1.74
TIER	1.43		1.36	2.00
TIER excluding GTCC	1.43		1.36	2.00
Target TIER	2.00		2.00	2.00
Margins at Target TIER	2,124,754		2,041,806	2,041,806
Revenue Requirement	72,791,072		68,120,004	68,120,004
Revenue Deficiency	1,208,830		1,308,142	-
Increase Needed to Achieve Revenue Requirement (\$) >				1,308,142
Increase Needed to Achieve Revenue Requirement (%) >				1.98%

Cost of Service

Jackson Purchase Energy filed a fully allocated COSS in order to determine the cost to serve each customer class. This COSS determined Jackson Purchase Energy's overall rate of return on rate base and the relative rates of return from each rate class and was used as a guide in the proposed rate design.⁴⁴ Having reviewed Jackson Purchase

⁴⁴ Wolfram Testimony at 16 lines.

Energy's COSS, the Commission finds it to be acceptable for use as a guide in allocating the revenue increase granted herein.⁴⁵ Regarding the pole allocation, the use of the zero-intercept method is the preferred method; however, when the zero-intercept method produces anomalous results, such as in this case, then the minimum system method is accepted and follows the NARUC⁴⁶ guidelines.⁴⁷ The Commission supports the NARUC guidelines and the use of the minimum system in the absence of usable results in the zero-intercept method.⁴⁸

Revenue Allocation and Rate Design

Based on the results of the COSS, at current rates, only the residential class is providing revenue less than the cost to serve while all other classes produce revenues at, or in excess of, their class cost to serve.⁴⁹ Jackson Purchase Energy proposed to apply the rate increase only to the residential class since this class contributes nearly 62 percent to total revenue and is the only class being subsidized.⁵⁰ Jackson Purchase Energy also proposed to place 100 percent of this increase onto the customer charge.

⁴⁵ See Appendix A for the revised COSS accounting for the impact of the Consumer Deposits error referenced above and additional pro forma Commission adjustments for rate case expenses and health care costs.

⁴⁶ National Association of Regulatory Utility Commissions (NARUC).

⁴⁷ Wolfram Testimony at 19. The Commission also notes that the total number of units is used in the minimum system method for the determination of the minimum cost, not the total number of customers as argued by the Attorney General.

⁴⁸ See Case No. 2018-00272, *Grayson Rural Electric Cooperative Corporation for an Adjustment of Rates* (Ky. PSC Mar. 28, 2019) and Case No. 2017-00374, *Application of Big Sandy Rural Electric Cooperative Corporation for a General Adjustment in Existing Rates* (Ky. PSC Apr. 26, 2018).

⁴⁹ See Appendix A.

⁵⁰ Wolfram Testimony at 7 and Jackson Purchase Energy's Comments to the Commission at 4.

The impact is a 35 percent increase in the customer charge from \$12.45 to \$16.78 and an average overall bill impact of 3.2 percent.⁵¹

The Commission finds that the COSS study supports the proposed increase to the residential class. The Commission also observes that, for an electric cooperative that is strictly a distribution utility, there is merit in providing a means to guard against revenue erosion that often occurs due to the decrease in sale volumes that accompanies poor regional economics and changes in weather patterns and this Commission consistently has been in favor of raising the customer charge in utility rate cases to reflect the fixed costs inherent in providing utility service. The COSS supports a customer charge of \$30.23 and the proposed customer charge is within the COSS and is reasonable.⁵² However, at the proposed increase, the single-phase commercial class, which currently has a customer charge of \$13.86, will have a lower customer charge. The Commission inquired about the lower customer charge and Jackson Purchase Energy stated that the proposed rate design is its first revision in over a decade and the first under the Streamlined Rate Order process and Jackson Purchase Energy decided to take a more restrained, incremental approach and only revise a single-unit charge.⁵³ The Commission does not support a rate design in which the small single-phase commercial class pays a monthly customer charge that is lower than that charged to the residential class and finds that a customer charge that, at a minimum, is equal to the residential class is reasonable. Therefore, the Commission finds a monthly customer charge of \$16.40 for both the

⁵¹ *Id.* at 25–26.

⁵² See Appendix A for the revised COSS after accounting for the rate base error and updates to adjustments for healthcare and rate case expenses.

⁵³ Jackson Purchase Energy's Response to Staff's First Request, Item 15.

residential and small single-phase commercial class to be reasonable. Based on Jackson Purchase Energy's average monthly residential usage of 1,134 kWh, the average monthly bill for residential customers will increase by \$3.95, from \$126.73 to \$130.68, or 3.12 percent.

SUMMARY

The Commission recognizes the Attorney General's concern over the length of time since Jackson Purchase Energy has filed a base rate case.⁵⁴ The Commission also recognizes Jackson Purchase Energy's commitment to cost containment and its ability to maintain its financial matrices for 11 years. The Commission evaluated Jackson Purchase Energy's rate application and found that the amount of the increase coupled with the fact that Jackson Purchase Energy has maintained financial stability since its last base rate case allowed the Commission to approve the Streamline Rate Order process. The Commission will evaluate each Streamline Rate Order applicant individually and weigh the pertinent issues in determining whether to grant or deny acceptance under the Streamline Rate Order.

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. The rates proposed by Jackson Purchase Energy should be denied.
2. The rates set forth in Appendix B to this Order are the fair, just, and reasonable rates for Jackson Purchase Energy to charge for service rendered on and after the date of this Order and should be approved.

⁵⁴ See Case No. 2007-00116, *General Adjustment of Electric Rates of Jackson Purchase Energy Corporation* (Ky. PSC June 17, 2008).

IT IS THEREFORE ORDERED that:

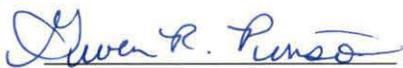
1. The rates proposed by Jackson Purchase Energy are denied.
2. The rates set forth in Appendix B are approved for services rendered by Jackson Purchase Energy on and after the date of this Order.
3. Within 20 days of the date of entry of this Order, Jackson Purchase Energy shall file with the Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and reflecting their effective date and that they were authorized by this Order.
4. This case is closed and removed from the Commission's docket.

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By the Commission

ENTERED
JUN 20 2019
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

Case No. 2019-00053

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2019-00053 DATED **JUN 20 2019**

Revised Exhibit JW-3

Summary of Returns

Rate	Code	Pro Forma Operating Revenue	Pro Forma Operating Expenses	Margin	Rate Base	Pro Forma Rate of Return on Rate Base	Unitized Rate of Return on Rate Base
R - Residential	R	\$ 40,110,579	\$ 40,041,929	\$ 68,650	\$ 69,019,279	0.10%	0.04
C-1 Small Commercial Single Phase	C1	\$ 4,008,207	\$ 3,797,337	\$ 210,871	\$ 6,715,144	3.14%	1.42
C-3 Small Commercial Three Phase	C3	\$ 1,277,432	\$ 1,228,772	\$ 48,661	\$ 2,236,898	2.18%	0.98
D - Commercial and Industrial Demand < 3,000 kW	D	\$ 16,485,292	\$ 15,690,460	\$ 794,832	\$ 18,839,697	4.22%	1.91
I-E - Large Commercial Existing	I-E	\$ 1,212,883	\$ 1,037,078	\$ 175,805	\$ 558,370	31.49%	14.23
I-E - Large Commercial Existing - DIRECT SERVE	I-E	\$ 791,940	\$ 543,287	\$ 248,653	\$ 662,314	37.54%	16.96
L - Large Commercial and Industrial 3,000 - 5,000 kW	L	\$ 879,389	\$ 804,842	\$ 74,547	\$ 1,038,725	7.18%	3.24
OL - Outdoor Lighting	OL	\$ 1,394,040	\$ 790,429	\$ 603,611	\$ 1,483,633	40.68%	18.38
		\$ 66,159,763	\$ 63,934,134	\$ 2,225,629	\$ 100,554,060	2.21%	1.00

Rate	Code	Rev Share
R - Residential	R	61%
C-1 Small Commercial Single Phase	C1	6%
C-3 Small Commercial Three Phase	C3	2%
D - Commercial and Industrial Demand < 3,000 kW	D	25%
I-E - Large Commercial Existing	I-E	2%
I-E - Large Commercial Existing - DIRECT SERVE	I-E	1%
L - Large Commercial and Industrial 3,000 - 5,000 kW	L	1%
OL - Outdoor Lighting	OL	2%
		100%

Summary of Cost-Based Rates

Rate	Two-Part Rates		Three-Part Rates		
	Customer \$/Month	Energy \$/KWH	Customer \$/Month	Energy \$/KWH	Demand \$/KW
R - Residential	30.23	0.096826			
C-1 Small Commercial Single Phase	34.36	0.085758			
C-3 Small Commercial Three Phase	45.07	0.096002			
D - Commercial and Industrial Demand < 3,000 kW			62.43	0.048624	11.94
I-E - Large Commercial Existing			99.75	0.048635	13.49
I-E - Large Commercial Existing - DIRECT SERVE			99.75	0.039371	14.39
L - Large Commercial and Industrial 3,000 - 5,000 kW			99.75	0.048635	13.28
OL - Outdoor Lighting					

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2019-00053 DATED **JUN 20 2019**

The following rates and charges are prescribed for the customers in the area served by Jackson Purchase Energy Cooperation. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

SCHEDULE R – RESIDENTIAL

Facilities Charge per month	\$ 16.40
Energy Charge per kWh per month	\$ 0.100780

SCHEDULE C-1 – SMALL COMMERCIAL SINGLE PHASE

Facilities Charge per month	\$ 16.40
Energy Charge per kWh per month	\$ 0.102176

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