

COMMONWEALTH OF KENTUCKY
BEFORE THE ENERGY REGULATORY COMMISSION

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In the Matter of:

NOTICE OF ADJUSTMENT OF RATES OF)
GREEN RIVER ELECTRIC CORPORATION) CASE NO. 7706

O R D E R

On February 4, 1980, Green River Electric Corporation (hereinafter Applicant or Green River) filed an application to place into effect on February 25, 1980, a schedule of rates that would produce approximately \$1,786,202 annually, an increase of 15.2%. Green River further requested that the Commission allow it to place into effect a temporary surcharge of 3 mills per kilowatt-hour on sales to it's residential, commercial, and small industrial consumers to retire the Short-term line of credit outstanding at the time the Commission issues it's final order in this matter. The Short-term debt between the time of filing and submission of this case ranged from zero to \$500,000. On February 6, 1980, the Commission issued it's Order which suspended the proposed rates for a period of five months, scheduled a hearing for March 25, 1980, and directed Applicant to provide statutory notice to it's consumers of the pending rate increase and the scheduled hearing.

On February 19, 1980, the Commission issued an Order which found that, based on the application and exhibits the request for a surcharge was incomplete on it's face and should be dismissed. Thereafter, on February 25, 1980, Green River filed a motion to amend it's notice to include details of the proposed surcharge. The Commission, on February 29, 1980, sustained said motion, suspended the effective date of the surcharge for five months from and after March 17, 1980, and required further notice of the surcharge to be given.

On February 7, 1980, the Consumer Intervention Division in the Department of Law filed a motion to intervene in these proceedings pursuant to KRS 367.150(8). The National-Southwire Aluminum

Company, Applicant's largest consumer of electric energy, filed a motion to intervene on March 6, 1980, and S.T.O.P., an association of consumers, filed a motion to intervene on March 24, 1980. All of these motions were sustained and the parties of interest were allowed to participate in the proceedings. At the hearing on March 25, 1980, Mrs. Loretta Bennett also intervened and participated in the proceedings.

All hearings were conducted as scheduled at the Commission's offices in Frankfort, Kentucky. Numerous requests for additional information were made by the Commission and the intervenors. Green River filed objections to requests for additional information of April 3, 1980, by the Consumer Intervention Division and of April 14, 1980, by Loretta Bennett. At the hearing on April 29, 1980, Loretta Bennett withdrew her request for information and the Consumer Intervention Division dispensed with it's request for information on the grounds that the information could not be supplied by Applicant. Green River responded to all other requests for information and the matter was submitted to the Commission for final determination.

COMMENTARY

Green River Electric Corporation is a consumer owned non-profit electric cooperative corporation organized under Chapter 279 of the Kentucky Revised Statutes and is in the business of distribution and sale of electric energy at retail to approximately 21,300 consumers in the Western Kentucky counties of Daviess, Hancock, Hopkins, Henderson, McLean, Ohio, Muhlenberg, Breckinridge and Webster.

Green River is one of four member-owners of the Big Rivers Electric Corporation based in Henderson, Kentucky and receives all of it's energy requirements from Big Rivers. Green River is somewhat unique in that approximately 84% of its total revenue is derived from four large industrial consumers served under special contracts. Green River has proposed in this proceeding to place the increase requested on it's rural system consumers and exclude these large industrial consumers.

TEST PERIOD

Green River proposed, and the Commission has accepted, the twelve month period ending September 30, 1979, as the test period for the purposes of determining the reasonableness of the proposed rates. In utilizing the historical test period, the Commission has considered adjustments where found to be known and measurable to reflect more current operating conditions. Applicant stated that the test period reflected normal operations for a twelve month period with no extraordinary revenues or expenses.

VALUATION

Net Investment

Green River proposed, in Exhibit 7, a net investment rate base of \$20,137,175 based on the value of plant in service, accumulated depreciation and customer advances for construction at the end of the test period and the thirteen month average of materials and supplies and prepayments. Applicant proposed to include working capital based on one-eighth of actual out of pocket operation and maintenance expenses plus twenty one days or 5.75% of the cost of purchased power. In support of the inclusion of a portion of purchased power Applicant presented in Exhibit 9 a schedule reflecting the average amount of time between the payment of it's power bill and receipt of revenue from it's rural system consumers.

The Commission is of the opinion that, although, the average time involved in receipt of revenue and payment of the power bill is one factor in the determination of need for working capital, this evidence is not conclusive in establishing the appropriate level of working capital and other factors should be considered. Therefore, in the absence of persuasive evidence to the contrary, the Commission will not depart from its past policy, and will allow only the one-eighth out of pocket operation and maintenance expenses. The Commission will, however, include the adjusted operation and maintenance expenses approved herein in order to reflect more current operating conditions. The Accumulated Depreciation has, likewise, been adjusted to include the proforma depreciation. The Commission will accept the other elements in the rate base as proposed by Applicant.

Based on these adjustments Applicant's adjusted net investment rate base is as follows:

Utility Plant in Service	\$24,008,168
Construction Work in Progress	<u>232,414</u>
Total Utility Plant	\$24,240,582
Add:	
Materials and Supplies	\$ 424,240
Prepayments	165,411
Working Capital	<u>375,434</u>
Subtotal	\$ 965,085
Deduct:	
Depreciation Reserve	\$ 6,306,033
Customer Advances for Construction	<u>3,579</u>
Subtotal	\$ 6,309,612
Net Investment	<u>\$18,896,055</u>

Capital Structure

The Commission finds from the evidence of record that Green River's Capital Structure at the end of the test period was \$20,833,472 and consisted of \$5,893,709 in Equity and \$14,939,763 in Long-term debt. In the determination of this Capital Structure the Commission has excluded accumulated Capital Credit assignments from it's wholesale power supplier in the amount of \$999,896.

The Commission has given due consideration to these and other elements of value in determining the reasonableness of the proposed rates and charges.

REVENUES AND EXPENSES

Green River proposed in Exhibit 6, proforma adjustments to reflect more current and anticipated operating conditions. The proposed adjustments to revenue and purchased power were to normalize these items to reflect the increased cost of power and the rates approved for service rendered on and after December 1, 1979, in Case Number 7391. Since that time and subsequent to the hearings in this proceeding the Commission issued an order on rehearing in that matter which resulted in additional revenue and power cost to Green River. Therefore, the Commission has adjusted the revenue and power cost accordingly.

Applicant proposed in it's initial filing an adjustment of \$146,333 to reflect increased costs of insurance, association dues, regulatory assessment, and outside services. At the hearing on

March 25, 1980, Green River introduced an exhibit which reflected a decrease of \$9,016 in the projected cost of insurance and association dues based on actual information concerning these expenditures. The Commission concurs with this revised adjustment and will reduce the proforma expense by \$9,016. The Commission will further reduce this adjustment by \$30,449 to reflect the 1980-81 regulatory assessment rate based on the normalized level of revenue; and by \$5,000 to disallow the adjustment for outside services. Applicant testified that the level of expenditures for outside services incurred during the test period was representative of a normal amount of outside services on an ongoing basis and although some individual costs would not necessarily be incurred in the future these costs would be replaced by some other professional services fees. The Commission is of the opinion that the \$5,000 adjustment is not warranted herein.

Green River proposed to adjust the test year other income by \$609,779 to exclude the generation and transmission, and other associated organizations capital credit assignments. The Commission will allow \$595,784 of the proposed adjustment which is the generation and transmission capital credit allocation.

Applicant proposed to adjust Interest on Long-term debt by \$331,669. This adjustment was based on an annualization of interest, based on Long-term debt outstanding at the end of the test period as well as additional Long-term debt that would be acquired through early, 1981. The Commission will allow \$200,806 of the proposed adjustment which is based on the level of Long-term debt actually outstanding on May 31, 1980. In determining the projected Interest on Long-term debt the Commission has utilized the composite debt cost based on Applicant's projected Long-term debt and associated annual interest costs.

Finally, the Commission has adjusted Green River's annual expenses to exclude all charitable, social, and community contributions of \$9,554; and by \$3,994 to exclude the industry association and membership dues. The Commission is of the opinion that these expenses have little or no benefit to the consumers and should not be allowed for rate making purposes.

The Commission has allowed all other pro-forma adjustments as proposed by Applicant. After consideration of the accepted proforma adjustments Applicant's adjusted operating statement is as follows:

	Actual ⁽¹⁾ <u>Test Period</u>	Proforma <u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$69,405,772	\$ 9,033,971	\$78,439,743
Operating Expenses	<u>68,673,376</u>	<u>9,372,273</u>	<u>78,045,649</u>
Net Operating Income	732,396	(338,302)	394,094
Interest on Long-Term Debt	620,260	200,806	821,066
Other Income and (Deductions) - Net	617,214	(563,547)	53,667
Net Income	<u>\$ 729,350</u>	<u>\$(1,102,655)</u>	<u>\$ (373,305)</u>

REVENUE REQUIREMENTS

The actual rate of return on Green River's Net Investment rate base established herein for the test year was 3.88%. After taking into consideration the proforma adjustments, Applicant's rate of return is reduced to 2.1%. The Commission is of the opinion that the adjusted rate of return is inadequate and a more reasonable rate of return would be 9.5%. In order to achieve this rate of return Green River should be allowed to increase it's annual revenue by approximately \$1,401,000. This additional revenue will provide a Times Interest Earned Ratio of 2.25 based on Net Income of approximately \$1,026,000 which will be sufficient to meet the requirements in Green River's mortgages securing it's Long-term debt. The rates set out in the attached Appendix "A" are designed to produce revenue of \$79,757,861 based on adjusted test year conditions.

OTHER ISSUES

Surcharge

In addition to the general rate increase requested herein Green River requested a new rate in the form of a surcharge of 3 mills per Kilowatt-hour to provide additional revenue to retire it's Short-term line of credit. The proposed method of determining the amount to be collected through this surcharge was to establish the amount to be collected when the final order is issued herein.

(1) REA Form 7 for twelve month period ending September 30, 1979. Proforma adjustments include accounting change for large industrial consumers.

The record reflects that the outstanding line of credit at the close of each month since the test period has varied from zero to \$500,000. The testimony of Green River at the March 25, 1980 hearing indicates that it would be opposed to the Commission's decision, coming at a time when the line of credit outstanding was at a zero level, negating the need of the surcharge. However, Green River failed to present persuasive proof as to the sufficiency of an alternative methodology to establish a reasonable amount to be collected under the surcharge.

The fundamental argument of Green River as to the necessity of the additional revenue was that the company has been forced to extend its Short-term borrowings to meet its day to day cash flow needs. The testimony and exhibits did not, however, support this contention, and the basic approach to establishing the amount to be collected is not consistent with the working capital argument.

The Commission recognizes that from time to time most utilities as well as other industries may be required to borrow on a Short-term basis for many reasons. This is not a unique situation with regard to Green River. The general rate making philosophy for utilities dictates that rates be established to recover the overall cost of service with an allowance for a reasonable rate of return. Provision is made in this determination for the operating capital needs of the utility. The request for a surcharge in this instance goes beyond that scope, and to allow a surcharge as requested herein would be an unwarranted precedent in Kentucky utility rate making practices.

The additional revenue granted in this matter should be adequate to allow Green River to operate on a sound financial basis and will provide for its working capital needs. Therefore, the Commission is of the opinion and finds that the application for a surcharge to retire the Short-term line of credit should be denied.

Rate Design

Green River proposed to modify its existing tariff rate design to reduce the number of usage blocks from four to three for

the rural system consumers and to incorporate into one class of service, public buildings, commercial, and large power consumer rate groups. Secondly, Green River proposed setting the rates for Community Street Lighting and Individual Lighting at the same level. The Commission is of the opinion that the proposed changes in Green River's tariff rate design and the combining of street and security lighting should be allowed herein.

Consumer Participation

Throughout the course of these proceedings the Commission received hundreds of letters from the consumers of Green River voicing opposition to the proposed rate increase and criticism of the management of Green River. A small group of consumers became involved in the hearing process in this matter and competently presented their views at the public hearing. Petitions signed by several thousand individuals were also submitted at the public hearing. Consumer interest in this matter is evident to the Commission.

As the record in this matter indicates member participation in the annual meeting of Green River has been as follows; At the annual meeting in 1979, approximately 200 out of the 16,000 members of Green River attended, and less than ten percent of the total membership voted in the election of board members. And, while not in the evidence in this proceeding, the Commission cannot resist noting that it has received information that consumer attendance at the 1980 Annual meeting was down to approximately one hundred. The testimony and exhibits indicate that the annual meetings have been well publicized by Applicant.

The fundamental concept of a cooperative form of organization is the ownership by the members. This structure provides a means of consumer involvement in the policies and management as well as the overall operations of the cooperative if they choose to exercise that prerogative. The annual meeting, which includes the election of the Board of Directors of the cooperative, is one avenue of direct involvement of the member. Management of Green River is

a tandem relationship between membership, board and management. The record indicates that the membership has not chosen to participate in the affairs of the Cooperative in the proportion it has demonstrated its interest in this case through letters and petitions.

The Commission urges Green River to continue to promote individual consumer attendance and participation in annual meetings and to pursue a more favorable working relationship between management and the members. The scheduled meetings with consumers, in our judgement, should not have been cancelled despite the testimony that persons in attendance opted to speak on matters outside the call of the meeting.

SUMMARY

The Commission, after due consideration and being advised, is of the opinion and finds that the rates set out in Appendix "A" attached hereto, are the fair, just, and reasonable rates for Green River Electric Corporation and will produce gross annual revenue of approximately \$79,757,861. The Commission further finds that the rates and charges proposed by Green River should be denied in that they produce revenue in excess of the amount determined to be reasonable herein.

IT IS THEREFORE ORDERED, that the rates set out in Appendix "A" attached hereto and made a part hereof are approved for service rendered on and after the date of this Order.

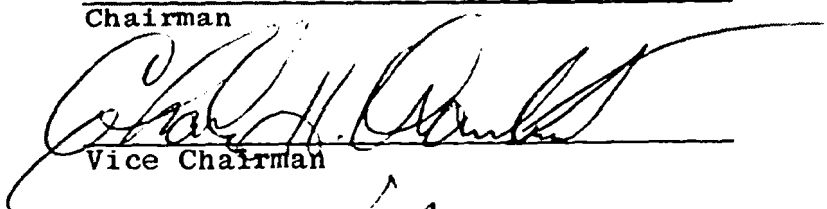
IT IS FURTHER ORDERED, that the rates and charges proposed by Green River Electric Corporation are unfair, unjust, and unreasonable in that they produce revenue in excess of that deemed reasonable herein and are hereby denied.

IT IS FURTHER ORDERED, that Green River Electric Corporation shall file with the Commission within thirty (30) days from the date of this Order its revised tariff sheets setting out the rates approved herein.

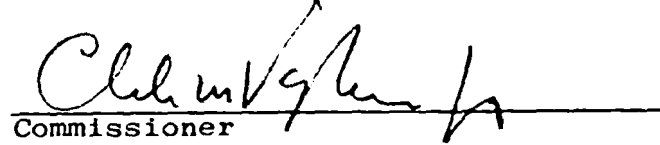
Done at Frankfort, Kentucky, this 25th day of July, 1980.

ENERGY REGULATORY COMMISSION

Chairman

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Vice Chairman

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Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE ENERGY REGULATORY
COMMISSION IN CASE NO. 7706 DATED July 25, 1980

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

Monthly Rates:

Residential Service (Single Phase & Three Phase) and All Other Single Phase Service*

Facilities Charge	\$5.00
First 600 KWH	4.15¢
Next 400 KWH	3.30¢
All Over 1,000 KWH	2.90¢

Commercial, Large Power and Public Buildings - Three-Phase Demand*

Facilities Charge	\$15.00
Plus Demand Charge of:	
Per KW of Billing Demand	\$ 3.00
Plus Energy Charge of:	
Per KWH for the first 150 KWH per KW of Billing Demand	3.3¢
Per KWH for all over 150 KWH per KW of Billing Demand	3.0¢

Street and Individual Consumer Lighting*

175 Watt Mercury Vapor Lamps	\$ 5.60
250 Watt Mercury Vapor Lamps	\$ 6.50
400 Watt Mercury Vapor Lamps	\$ 7.85

*The monthly kilowatt hour usage shall be subject to plus or minus an adjustment per KWH determined in accordance with the "Fuel Adjustment Clause."