

COMMONWEALTH OF KENTUCKY
BEFORE THE ENERGY REGULATORY COMMISSION

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In the Matter of:

THE APPLICATION OF JACKSON COUNTY)
RURAL ELECTRIC COOPERATIVE CORPO-)
RATION FOR AN ORDER AUTHORIZING) CASE NO. 7734
AN INCREASE IN ITS RETAIL RATES,)
APPLICABLE TO ALL CUSTOMERS)

O R D E R

On February 8, 1980, Jackson County Rural Electric Cooperative Corporation (Applicant) filed an Application with the Commission proposing to increase its annual revenues by \$866,815, an increase of approximately 6.6%. Applicant stated that the increase is required in order to continue to operate on a sound financial basis and continue to provide service to its consumers.

On March 4, 1980, the Applicant further requested that its proposed rates be made effective June 30, 1980. By Order dated March 31, 1980, the Commission suspended the proposed rates for a period of five (5) months on and after June 30, 1980.

The Commission, in order to determine the reasonableness of the proposed rates, set a public hearing for March 26, 1980. Notice of such hearing was made by the Applicant in manners prescribed by Kentucky law and the rules and regulations of this Commission.

The hearing was held as scheduled in the Commission's offices in Frankfort, Kentucky, with one intervenor being present. At the conclusion of the hearing and following response to all requests for additional information, the matter was submitted to the Commission for final determination.

Jackson County provides electric service to approximately 29,000 consumers in Jackson, Rockcastle, Laurel, Clay, Owsley, Lee and Estill Counties, Kentucky. Applicant's sole supplier of electric energy is East Kentucky Power Cooperative, Inc.

TEST PERIOD

The Commission has accepted Applicant's proposed test year, the twelve-month period ending October 31, 1979, to determine the reasonableness of the proposed rates.

VALUATION METHODS

Net Investment

The Commission finds from the record that Applicant's Net Investment devoted to its utility operations at the end of the test period is as follows:

Utility Plant in Service	\$26,387,885
Construction Work in Progress	539,566
Materials and Supplies-Electric	564,791
Prepayments	89,846
Cash Working Capital	262,416 ^{1/}
Subtotal	<u>\$27,844,504</u>
Less:	
Accumulated Depreciation	\$ 6,968,310
Customer Advances	188,440
Subtotal	<u>\$ 7,156,750</u>
Net Investment	<u>\$20,687,754</u>

Capital Structure

The Commission finds, from the evidence of record, Applicant's Capital Structure at the end of the test year to be \$24,088,588, consisting of \$17,269,251 of debt and \$6,819,337 of equity. Non-cash patronage capital credits in the amount of \$846,234 have been excluded from the equity portion in conformity with past Commission policy.

The Commission has given due consideration to other elements of value not reflected in the evidence of record. The rates of return found reasonable herein will provide Applicant with sufficient revenues to meet the mortgage requirements of its principle lending agents.

REVENUES AND EXPENSES

Jackson County proposed several pro forma adjustments to its income statement. We find these adjustments to be known and measurable and accept them for rate-making purposes with two

^{1/}One-eighth (1/8) of adjusted operating and maintenance expenses less purchased power.

exceptions. First, Applicant's proposed adjustments to normalize revenue and purchased power expense have been reduced by \$121,888 based on the rates granted Applicant in Case No. 7723. This Case (7723) authorized Jackson County to pass thru to its consumers the increased costs of purchased power from its supplier. Second, we have rejected entirely Applicant's proposed adjustment to remove all non-cash patronage capital credits, none of which are Generating and Transmission patronage capital credits, in conformity with past Commission policy.

After including the accepted adjustments, Jackson County's test period operations are adjusted as follows:

	<u>Actual</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$11,308,284	\$1,827,346	\$13,135,630
Operating Expenses	10,190,379	1,957,082	12,147,461
Net Operating Income	\$ 1,117,905	\$ (129,736)	\$ 988,169
Other Income (Deductions)			
Net	(610,518)	(168,488)	779,006
Net Income (Loss)	<u>\$ 507,387</u>	<u>\$ (298,224)</u>	<u>\$ 209,163</u>

RATE OF RETURN

The Commission is of the opinion that the adjusted rate of return of 4.8% is clearly deficit and is unfair, unjust, and unreasonable.^{2/}

We are of the opinion that a fair, just, and reasonable rate of return is 8.8%. To achieve these earnings, Jackson County is entitled to increase its electric rates to generate additional annual revenues of \$832,353 based on test-period conditions.^{3/} This will result in a Times Interest Earned Ratio of 2.25.

The rates and charges set out in attached Appendix "A" are designed to produce annual revenues of approximately \$13,967,983 including the additional revenues granted herein.

^{2/} \$988,169 + \$20,687,754

^{3/} \$20,687,754 x .088 = \$1,820,522 - \$988,169 = \$832,353

RATE DESIGN

Jackson County proposed to change its rate structure by consolidating certain consumer rate classifications, by adding a customer charge and by reducing the number of energy usage steps within the existing declining block rate structure. As the Commission finds that this reflects a move toward the rate-making standards contained in the National Energy Act, more specifically, the Public Utility Regulatory Policies Act of 1978 (PURPA), and that it encourages energy conservation, the proposed change has been incorporated in Appendix "A."

SUMMARY

The Commission, after considering all the evidence of record and being fully advised, is of the opinion and so FINDS:

That a fair, just, and reasonable rate of return is 8.8% and that to achieve these earnings Jackson County is entitled to generate additional annual revenues of \$832,353.

That the rates and charges set out in Appendix "A" attached hereto and made a part hereof will produce gross annual revenues in the amount of approximately \$13,967,983 and are the fair, just, and reasonable rates for the Applicant to charge for electric service in that they will produce revenues sufficient to permit it to pay its operating expenses and service its debt.

That the rates proposed by Jackson County in this Case are unfair, unjust, and unreasonable in that they produce gross annual revenues in excess of \$13,967,983 and should be denied.

IT IS THEREFORE ORDERED, that the rates sought by Jackson County Rural Electric Cooperative Corporation in this Case be and the same are hereby denied.

IT IS FURTHER ORDERED, that the rates set out in attached Appendix "A" are hereby approved for electric service rendered by Jackson County Rural Electric Cooperative Corporation on and after the date of this Order.

IT IS FURTHER ORDERED, that the Applicant shall file with this 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 the 1st day of September, 1980.

ENERGY REGULATORY COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE ENERGY REGULATORY
COMMISSION IN CASE NO. 7734 DATED SEPTEMBER 1, 1980.

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

RATES: Monthly

Schedule 10 - Residential, Farm and Non-Farm Service*

Availability

Available to the Customers of the Jackson County Rural Electric Cooperative Corporation located on its lines for general residential and farm and home uses including lighting, incidental appliances, refrigeration, cooking, heating and power for motors up to and including ten horsepower.

Rate

Customer Charge per month	\$4.52	Minimum Bill
First 650 KWH per month	.0425	per KWH
All over 650 KWH per month	.0337	per KWH

Minimum Charge:

The minimum monthly charge under the above rate shall be \$4.52.

Schedule 20 - Commercial, Small Power and Three-Phase Farm Service*

Availability

Available to commercial, small power and three-phase farm customers of the Jackson County Rural Electric Cooperative Corporation located on its lines for service including lighting, incidental appliances, cooking, heating, and motors, all subject to the established rules and regulations of the Corporation covering this service, Single-phase customers having their homes on the same premises may include farm and home service on the same meter.

Service under this schedule is limited to customers whose load requirements do not exceed 50 KW. Service under this schedule is not available to seasonal customers unless otherwise provided for.

Rate

Customer Charge per month	\$5.00	Minimum Bill
First 1,000 KWH per month	.0439	per KWH
Next 1,000 KWH per month	.0424	per KWH
All over 2,000 KWH per month	.0397	per KWH

Minimum Charge:

The minimum monthly charge under the above rate shall be \$5.00 or the amount provided in the contract for service, whichever shall be higher.

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

Schedule 30 - Large Power Service Less than 50 KW*

Customer Charge	\$6.00 per month
Demand Charge	\$3.45 per month per KW of billing demand
Energy Charge	
First 1000 KWH per month	.0400 per KWH
All over 1000 KWH per month	.0370 per KWH

Schedule 33 - Water Pumping Service*

Customer Charge	\$10.00 per month
First 10,000 KWH per month	.0369 per KWH
Next 40,000 KWH per month	.0346 per KWH
All over 50,000 KWH per month	.0310 per KWH

Schedule 40 - Large Power More Than 50 KW But Less Than 275 KW*

Customer Charge	\$15.00 per month
Demand Charge	\$3.45 per month per KW of billing demand
Energy Charge	
First 10,000 KWH per month	.0345 per KWH
Next 40,000 KWH per month	.0332 per KWH
All over 50,000 KWH per month	.0313 per KWH

Schedule 43 - Large Power - Over 275 KW*

Customer Charge	\$30.00 per month
Demand Charge	\$3.45 per month per KW of billing demand
Energy Charge	
First 150,000 KWH per month	.0296 per KWH
All over 150,000 KWH per month	.0280 per KWH

Schedule 50 and 60 - Schools, Churches, and Community Halls*

Availability

Available to schools, churches, and community halls for all uses subject to the established rules and regulations for the Corporation covering this class of service.

Rate

Customer Charge per month	\$5.00 Minimum Bill
First 800 KWH per per month	.0373 per KWH
All over 800 KWH per month	.0349 per KWH

Minimum Charges:

The minimum monthly charge under the above rate shall be \$5.00 or the amount provided in the contract for service, whichever shall be higher.

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

Schedule 52 - All Electric School (A.E.S.)*

Customer Charge per month	\$10.00 Minimum Bill
All KWH	.0334 per KWH

Schedule SL - Outdoor Lighting Service - Security Lights*

Mercury Vapor Lamp 175 Watt 90 KWH/lamp	\$4.73 per month
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*The monthly Killowatt hour usage shall be subject to plus or minus an adjustment per KWH determined in accordance with the "Fuel Adjustment Clause."