

COMMONWEALTH OF KENTUCKY
BEFORE THE ENERGY REGULATORY COMMISSION

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In the Matter of:

THE APPLICATION OF CUMBERLAND)	
VALLEY RURAL ELECTRIC COOPERATIVE)	
CORPORATION FOR APPROVAL OF THE)	CASE NO. 7772
INCREASED RATES FOR ELECTRICITY)	
THE UTILITY PROPOSES TO CHARGE)	
ITS CUSTOMERS)	

O R D E R

On March 14, 1980, Cumberland Valley Rural Electric Cooperative Corporation (hereinafter Applicant or Cumberland Valley) filed an application with this Commission requesting authority to increase its revenue by approximately \$637,800 on an annual basis, an increase of 7.84%. Applicant stated in the application that the additional revenue was required in order to operate on a sound financial basis, maintain its financial integrity, and continue to provide service to its customers.

The Commission scheduled the matter for hearing April 22, 1980, and ordered Applicant to give notice of the hearing and the proposed rates. The hearing was conducted as scheduled at the Commission's offices in Frankfort, Kentucky.

On March 18, 1980, the Consumer Intervention Division in the Office of the Attorney General filed a motion to intervene in this proceeding. This was the only party of interest formally intervening herein.

COMMENTARY

Cumberland Valley Rural Electric Cooperative Corporation is a consumer owned electric distribution cooperative which serves approximately 14,100 consumer members in the Kentucky counties of Knox, Bell, Whitley, Harlan, Letcher, McCreary, Leslie, Laurel, and Clay, and in the Tennessee counties of Clairborne and Campbell. Applicant purchases all of its power from East Kentucky Power Cooperative.

TEST YEAR

Applicant proposed and the Commission has adopted the twelve-month period ending December 31, 1979, as the test period for determining the reasonableness of the proposed rates and charges. In utilizing the historic test period the Commission has given full consideration to known and measurable changes where appropriate.

VALUATION

The Commission finds from the evidence of record that Applicant's Net Investment at December 31, 1979 is as follows:

Utility Plant in Service	\$14,305,106
Construction Work in Progress	<u>248,019</u>
Total Utility Plant	\$14,553,125

Add:

Materials and Supplies	\$ 168,657
Prepayments	69,890
Working Capital	<u>170,150</u>
Sub-total	\$ 408,697

Deduct:

Depreciation Reserve	\$ 920,934
Customer Advances for Construction	<u>216,074</u>
Sub-total	\$ 1,137,008

Net Investment	<u>\$13,824,814</u>
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In calculating the Net Investment, the Commission has adjusted Materials & Supplies and Prepayments to utilize the thirteen-month average. The Commission has further adjusted Applicant's Rate Base to reflect the pro forma adjustment to depreciation expense in the calculation of the Accumulated Provision for Depreciation. Likewise, the working capital has been adjusted to reflect the pro forma operation and maintenance expenses rather than the twelve-month actual. The Commission is of the opinion that this method provides greater recognition of the changing conditions in which a utility operates.

The Commission has determined that Applicant's Capital Structure at the end of the test period was \$14,944,999, and consisted of \$4,161,435 equity and \$10,783,564 in long-term debt.

The Commission has given due consideration to these and other elements of value in determining the reasonableness of the rate increase proposed herein.

REVENUES AND EXPENSES

Applicant proposed several pro forma adjustments to revenues and expenses as reflected on the comparative Income Statement. The adjustments were proposed to normalize increases in revenues, purchased power costs, salaries and wages, contract labor costs, computer processing costs, depreciation, and interest on long-term debt. The Commission is of the opinion that the adjustments proposed by Applicant are generally accepted for rate-making purposes with the following exceptions:

1. The adjustment to normalize revenue and purchased power based on the proposed increase in power cost from East Kentucky Power Cooperative, Inc., in Case No. 7702, has been adjusted by \$73,457 to reflect the amount granted in that matter on July 1, 1980.

2. The adjustments for contract labor costs, to Operation Expense and Maintenance Expense, should be reduced by \$493 and \$9,143, respectively. Applicant based these adjustments on increases in the hourly rates called for in the contracts it has with several independent construction firms. Applicant erroneously included increases to the hourly rates of equipment it does not use, which unfairly increased the composite rate used in determining the adjustments. The Commission is of the opinion that these rates should be excluded from the computation of these adjustments. Also included in these adjustments are the changes in the number of labor crews Applicant will employ during the current year. These changes, the net effect of which is to reduce one crew's time of employment from twelve to six months, were clarified in data Applicant submitted subsequent to the hearing date.

The testimony indicates that Applicant has difficulty competing in the labor market and, therefore, makes much use of independent contractors. The Commission will not presume to tell Applicant that it should contract its right-of-way clearance by bid rather than negotiation, but the utility should consider such a practice.

3. The adjustment to Depreciation Expense should be reduced by \$1,715, inasmuch as Applicant has terminated the school appliance

program as of May, 1980 and will no longer accrue depreciation on these items of plant.

4. Applicant's original adjustment to Interest Expense of \$3,229 did not include annualized interest on outstanding debt or approved funds that had not been advanced as of the end of the test period. The Commission feels that this adjustment should be increased by \$2,146 to reflect annual interest on debt outstanding at the end of the test year. Subsequent to the hearing, Applicant proposed an additional adjustment of \$135,955 to annualize interest on funds to be advanced during the current year. The Commission is of the opinion that this adjustment should be reduced by \$50,900 to only reflect the additional interest on long-term debt funds advanced through the date of this Order.

5. In response to the Commission's Order dated April 7, 1980, Cumberland Valley submitted additional information concerning the test year expenses for community contributions. The Commission is of the opinion that these expenses have little or no benefit to consumers and should not be allowed for rate-making purposes; therefore, operating expenses for the test period have been further adjusted by \$360 to exclude these costs.

The effect on Net Income of the revised pro forma adjustments is as follows:

	<u>Actual Test Period</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted Test Period</u>
Operating Revenues	\$7,174,761	\$ 958,841	\$8,133,602
Operating Expenses	6,562,944	1,061,812	7,624,756
Net Operating Income	<u>\$ 611,817</u>	<u>\$ (102,971)</u>	<u>\$ 508,846</u>
Interest Expense	504,762	90,430	595,192
Other Income & Deductions (Net)	142,003	- 0 -	142,003
Net Income	<u>\$ 249,058</u>	<u>\$ (193,401)</u>	<u>\$ 55,657</u>

RATE OF RETURN

The adjusted rate of return on Applicant's Net Original Cost, established herein for the test year, was 4.43%. After taking into consideration the pro forma adjustments, Applicant would realize a 3.68% rate of return. The Commission is of the opinion and finds the revised rate of return is inadequate and would impair Applicant's financial integrity. In order to remain on a sound financial basis,

Applicant should be allowed to increase its annual revenue by approximately \$637,800, which would result in a rate of return of 8.3% and a Times Interest Earned Ratio of 2.16. This additional revenue will provide Net Income of approximately \$693,100, which should be sufficient to meet the requirements in Applicant's mortgages securing its long-term debt.

RATE DESIGN AND RATES

Cumberland Valley proposed to modify its existing rate structure from a minimum bill declining block structure composed of six blocks to a similar structure composed of two blocks. The Commission concurs with Applicant's proposal as 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).

The rates requested herein were based on rates designed to recover a wholesale power cost increase from East Kentucky Power Cooperative. The wholesale power cost increase was based upon East Kentucky's proposed rate request in Case 7702 before this Commission. Whereas East Kentucky was not granted the entire amount of its request, the rates requested by Applicant to flow-through the increase were reduced accordingly. Pursuant to that reduction, the Commission is of the opinion and finds that the proposed rates should be denied.

SUMMARY

The Commission, after consideration of the evidence of record and being fully advised, is of the opinion and so finds that the rates and charges set out in Appendix "A," attached hereto and made a part hereof, will produce gross annual revenue in the amount of \$8,771,379 and are the fair, just, and reasonable rates for Applicant.

The Commission further finds that the rates and charges proposed by the Applicant are unfair, unjust, and unreasonable in that they produce revenue in excess of that deemed 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 on and after the date of this Order.

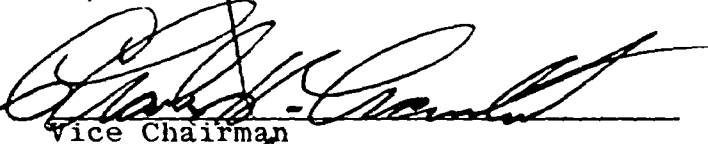
IT IS FURTHER ORDERED, that the rates and charges proposed by Cumberland Valley Rural Electric Cooperative Corporation are unfair, unjust, and unreasonable in that they produce revenue in excess of that deemed reasonable herein and are hereby denied.


IT IS FURTHER ORDERED, that Cumberland Valley Rural Electric Cooperative Corporation 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 August, 1980.

ENERGY REGULATORY COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE ENERGY REGULATORY
COMMISSION IN CASE NO. 7772 DATED AUGUST 1, 1980.

The following rates and charges are prescribed for the customers in the area served by Cumberland Valley 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 I - Farm, Home, Schools and Churches*

Customer Charge	\$5.00 per month per customer
First 500 KWH	\$.046 per KWH per month
Over 500 KWH	.036 per KWH per month

Schedule II - Small Commercial and Small Power*

Customer Charge	\$5.00 per month per customer
Demand Charge: Per KW of billing demand	\$2.75
Energy Charge:	
First 3,000 KWH	\$.0602 per KWH per month
Over 3,000 KWH	.0414 per KWH per month

Schedule III - All Electric Schools*

All KWH	\$.0407 per KWH per month
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Schedule IV - Large Power - Industrial (2,500 KW and Over)*

Demand Charge: Per KW of billing demand	\$3.67
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Energy Charge:

All KWH	\$.022 per KWH per month
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Schedule IV A - Large Power - Industrial (All Others)*

Demand Charge: Per KW of billing demand	\$2.75
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Energy Charge:

All KWH	\$.0295 per KWH per month
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Schedule V

Cancelled

Schedule VI - Outdoor Lighting*

Mercury Vapor Lamps	
175 Watt	\$5.40 per Lamp per month
400 Watt	7.10 per Lamp per month

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