

COMMONWEALTH OF KENTUCKY
BEFORE THE ENERGY REGULATORY COMMISSION

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In the Matter of

THE ADJUSTMENT OF RATES OF)
HARRISON COUNTY RURAL ELECTRIC) CASE NO. 7944
COOPERATIVE CORPORATION OF)
CYNTHIANA, KENTUCKY)

O R D E R

On August 22, 1980, Harrison County Rural Electric Cooperative Corporation (hereinafter Applicant or Harrison County) filed an application with this Commission requesting authority to increase its revenue by approximately \$437,025 on an annual basis, an increase of 9.74%. Applicant stated in the application that the additional revenue was required due to the erosion of Applicant's margins, reserves, and overall financial condition.

The Commission scheduled the matter for hearing November 25, 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 August 28, 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

Harrison County Rural Electric Cooperative Corporation is a consumer owned electric distribution cooperative serving approximately 8,065 consumer members in the Kentucky counties of Bracken, Bourbon, Grant, Harrison, Nicholas, Pendleton, Robertson, and Scott. 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 June 30, 1980, 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

Net Investment

The Commission finds from the evidence of record that Applicant's Net Investment at June 30, 1980, is as follows:

Utility Plant in Service	\$ 9,353,739
Construction Work in Progress	687,928
Total Utility Plant	<u>\$ 10,041,667</u>

Add:

Materials and Supplies	\$ 133,224
Prepayments	24,384
Working Capital	122,193
Sub-Total	<u>\$ 279,801</u>

Deduct:

Depreciation Reserve	\$ 1,492,530
Customer Advances for Construction	8,316
Sub-Total	<u>\$ 1,500,846</u>

Net Investment	<u>\$ 8,820,622</u>
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In calculating the Net Investment, Applicant proposed using the thirteen month average account balance for Materials and Supplies and Prepayments. Applicant adjusted the Depreciation Reserve to reflect the pro forma depreciation expense adjustment and likewise, adjusted working capital to reflect the proposed adjustments to operation and maintenance expenses. The Commission is of the opinion that these adjustments are appropriate inasmuch as they provide greater recognition of the changing conditions in which a utility operates. The Commission has however, reduced the provision for working capital to reflect the revised pro forma adjustments to operation and maintenance expenses.

Capital Structure

The Commission finds from the evidence of record that Applicant's Capital Structure for rate-making purposes is as follows:

Equity	\$ 1,990,618
Long Term Debt	<u>\$ 7,423,506</u>
Total Capitalization	<u>\$ 9,414,124</u>

The Commission has adjusted Applicant's proposed equity to reflect only the test year-end balance rather than include Applicant's pro forma adjustment based on the proposed increase in revenues.

The Commission has given 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 its revised Exhibit A. The adjustments were proposed to normalize increases in revenues, purchased power costs, salaries and wages, contract labor costs, computer processing costs, transportation costs, taxes, depreciation, mailing costs, and interest on long-term debt. The Commission is of the opinion that the adjustments proposed by Applicant are generally acceptable for rate-making purposes with the following exceptions:

1. The adjustment to normalize mailing costs based on projected increases in postage rates has been eliminated for rate-making purposes. The Commission is of the opinion that Applicant's adjustment is speculative in nature inasmuch as it is based on unofficial and uncertain information.

2. The Commission has adjusted test period operating expenses by \$200 to exclude the cost of organizational dues that, in the Commission's opinion, produce little or no benefit to consumers and, therefore, should not be allowed for rate-making purposes.

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 Year</u>
Operating Revenues	\$4,059,779	\$ 342,167	\$ 4,401,946
Operating Expenses	<u>3,563,990</u>	<u>373,711</u>	<u>3,937,701</u>
Net Operating Income	\$ 495,789	\$ (31,544)	\$ 464,245
Interest Expense	327,858	53,529	381,387
Other Income & (Deductions)-Net	<u>68,323</u>	<u>(26,562)</u>	<u>41,761</u>
Net Income	<u>\$ 236,254</u>	<u>\$(111,635)</u>	<u>\$ 124,619</u>

RATE OF RETURN

The actual rate of return on Applicant's Net Investment, established herein for the test year, was 5.62%. After taking into consideration the pro forma adjustments, Applicant would realize a 5.26% rate of return. The Commission is of the opinion and finds that 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 \$329,800, which would result in a rate of return of 9.0% and a Times Interest Earned Ratio of 2.25. This additional revenue will provide Net Income of approximately \$454,400, which should be sufficient to meet the requirements in Applicant's mortgages securing its long-term debt.

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 \$4,731,762 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 and charges 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 Harrison County 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 Harrison County 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 20th day of February, 1981.

ENERGY REGULATORY COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE KENTUCKY ENERGY
REGULATORY COMMISSION IN CASE NO. 7944
DATED FEBRUARY 20, 1981

The following rates and charges are prescribed for the customers in the area served by Harrison 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 this Commission prior to the date of this Order.

SCHEDULE A - RATE 1
FARM AND HOME SERVICE*

Rates:

Consumer Charge	\$ 6.00 Per Month
All KWH used	.04482 Per KWH

RATE 2
COMMERCIAL AND SMALL POWER SERVICE (0 - 50 KW DEMAND)*

Rates:

Consumer Charge	\$11.00 Per Month
All KWH Used	.04472 Per KWH
All KW Demand Used	\$ 4.00 Per KW

RATE 8
LARGE POWER SERVICE (50 to 500 KW DEMAND)*

Rates:

Consumer Charge	\$27.50 Per Month
All KWH Used	.03512 Per KWH
All KW Demand Used	\$ 4.00 Per KW

LPR-1, RATE 8
LARGE POWER SERVICE OVER 500 KW DEMAND*

Rates:

Consumer Charge	\$38.50 Per Month
All KWH Used	.02972 Per KWH
All KW Demand Used	\$ 4.00 Per KW

SECURITY LIGHTS
OUTDOOR LIGHTING SERVICE*

Rate Per Fixture:

<u>Type of Fixture</u>	<u>Lamp Size</u>	<u>Monthly Charge</u>
Mercury Vapor	175 Watts (73 KWH/lamp)	\$5.20 Per Month
Mercury Vapor	400 Watts (154 KWH/lamp)	\$8.25 Per Month

*Fuel Adjustment Clause:

All rates are applicable to the Fuel Adjustment Clause and may be increased or decreased by an amount per KWH equal to the fuel adjustment amount per KWH as billed by the Wholesale Power Supplier plus an allowance for line losses. The allowance for line losses will not exceed 10% and is based on a twelve-month moving average of such losses. This Fuel Clause is subject to all other applicable provisions as set out in 807 KAR 50:075.