COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

NOTICE AND APPLICATION FOR ADJUSTMENT OF RATES FOR JACKSON PURCHASE ELECTRIC COOPERATIVE CORPORATION, INCLUDING AN EMERGENCY INCREASE: AND SUPPLEMENT APPLICANT'S PROPOSED RETAIL RATES TO UTILIZE A PILOT RATE PROGRAM (TIME OF DAY RATES)	)	CASE NO. 8098

O R D E R

On December 18, 1980, Jackson Purchase Electric Cooperative Corporation ("Applicant") filed an application with this Commission requesting authority to increase its revenue by $1,113,992 annually, an increase of 8.1%. Applicant stated among other things that the proposed rate increase was necessary to provide revenues sufficient to service its debt and comply with its loan requirements. Applicant also stated that the continual drain on its equity created by lack of sufficient revenues to finance a part of the construction necessary in a prudent utility company results in higher costs to its members as an ultimate result of inadequate revenue relief.

On February 3, 1981, the Commission issued an Order directing Applicant to provide notice to its consumers of the proposed rate increase and the hearing scheduled for March 19, 1981.

On January 6, 1981, the Division of Consumer Intervention in the Department of Law filed a motion to intervene in these proceedings. No other parties of interest formally intervened herein, although several letters and petitions were filed in oppposition to the proposed increase. The hearing was conducted as scheduled at the Commission's offices in Frankfort, Kentucky, and the matter of the proposed rate increase is now before the Commission for final determination.

COMMENTARY

Applicant 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 its approximately 18,200 consumers in the Kentucky counties of Ballard, Carlisle, Graves, Livingston, Marshall, and McCracken.

TEST PERIOD

Applicant proposed, and the Commission has accepted,the twelve-month period ending May 31, 1980, 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

Applicant proposed, in its Exhibit 7, a net investment rate base of $21,853,788 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 pro forma out-of-pocket operation and maintenance expenses plus 28 days of the cost of purchased power, excluding that necessary for one large industrial consumer. Applicant testified that the 28 days is the average lag in the payment for purchased power and the receipt of revenue associated with that power.

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 the need for working capital, this evidence is not totally conclusive in establishing the appropriate level of working capital and other factors must 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 of out-of-pocket operation and maintenance expenses exclusive of purchased power. 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 pro forma depreciation. The Commission will accept the other elements in the rate base as proposed by Applicant.

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

Utility Plant in Service	$ 23,417,531
Construction Work in Progress	951,553
Total Utility Plant	$ 24,369,084
Add:	
Materials and Supplies	$ 488,641
Prepayments	115,998
Working Capital	298,435
Subtotal	$ 903,074
Deduct:	
Depreciation Reserve	$ 3,994,419
Customer Advances for Construction	7,793
Subtotal	$ 4,002,212
Net Investment	$ 21,269,946

Capital Structure

The Commission finds from the evidence of record that Applicant's capital structure at the end of the test period was $19,249,223 and consisted of $5,274,540 in equity and $13,974,683 in long-term debt. In the determination of this capital structure the Commission has excluded accumulated capital credit assignments from its wholesale power supplier in the amount of $240,033.

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

REVENUE AND EXPENSES

On Exhibit 6 Applicant proposed adjustments to revenues and expenses to reflect more current and anticipated operating conditions. The proposed adjustments to revenue were to reflect the normalization of test-year sales based on the conversion to cycle billing during 1979 and the rates granted in Case No. 7676 on May 30, 1980.

Applicant proposed an adjustment of $58,819 to reflect the increased cost of labor for non-union employees. The proposed adjustment was based on an estimated increase of 8.3% effective January 1, 1981. Based on information supplied subsequent to the hearing the board actually approved an overall increase of 6%. Therefore, we have reduced Applicant's proposed adjustment by $16,273.

Applicant proposed an adjustment of $10,500 to increase its annual uncollectible accounts expense. In support of this adjustment, Applicant offered its conclusion that the new Commission regulations concerning discontinuance of service for nonpayment of bills have resulted in the increase in this expense. The Commission is of the opinion that this argument is invalid and to allow Applicant to continue to increase its provision for uncollectible accounts without more conclusive evidence would further reduce its incentive to hold down this expense. Applicant also testified that it was developing computer capability to better control uncollectible accounts by denying new service to customers who have previously established a record of nonpayment of bills. This and other efforts should be implemented within the Commission regulations in order to effectively restrain the increases in this expense. Therefore, the Commission will disallow the proposed adjustment for rate-making purposes.

Applicant proposed an adjustment to depreciation expense of $43,622 to reflect an increase in depreciation expense based on its newly adopted depreciation rates and the plant in service at the end of the test year. In Case No. 7676, Applicant's most recent rate increase application, the Commission denied the use of the proposed depreciation rates and directed Applicant to accrue depreciation based on rates then in effect. In this matter, Applicant failed to offer any additional proof in support of a revision of its depreciation rates. Therefore, the Commission will not allow the depreciation expense adjustment and will reduce the test year actual depreciation expense by $5,192. The resulting pro forma depreciation expense is based on the plant in service at the end of the test period and the previously authorized depreciation rates.

Applicant proposed a pro forma adjustment in the amount of $209,539 to reflect increased costs associated with the purchase of transmission facilities from Kentucky Utilities Company. The Commission, in Case No. 7787, ruled that the purchase of these transmission facilities at this time was not in the best interests of Applicant's consumers and denied said purchase. Therefore, the Commission will disallow any additional cost associated with these facilities herein.

The Commission has reduced the test year operating expenses by $254 to exclude the cost of institutional advertising in accordance with 807 KAR 5:016E; and by $26,179 to exclude the test year expense for the Rural Kentuckian Magazine. Applicant stated in testimony that it had discontinued its practice of providing this monthly publication to its members as a means of reducing costs.

During the test year Applicant incurred $27,500 in legal fees and other expenses in connection with the current rate application and the prior rate case. The Commission is of the opinion that this expense should be reduced by $13,750 to reflect a normalized level of expense for rate-making purposes.

Applicant proposed an adjustment to interest on long-term debt of $386,889. In determining this adjustment Applicant included interest on long-term debt that was authorized but unadvanced at the end of the test period. The Commission will allow $260,735 of the amount proposed which will include all long-term debt advances through April 1981, which is the most current information concerning actual long-term debt outstanding available to the Commission at this time.

In its Exhibit 6 Applicant excluded the test year nonoperating income which consisted of $111,309 of generation and transmission capital credits and $67,316 of other non-cash capital credits and patronage dividends. Heretofore, the Commission has found that the generation and transmission capital credits assigned by power suppliers would not be included in the determination of revenue requirements insofar as the Times Interest Earned Ratio calculation is concerned. The Commission has not, however, excluded for any purposes the other capital credits and patronage dividends. Therefore, we have included the amount of $67,316 in nonoperating income.

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

	Actual Test Period	Pro forma Adjustments	Adjusted
Operating Revenues	$12,299,962	$ 1,507,956	$13,807,918
Operating Expenses	12,015,801	227,307	12,243,108
Net Operating Income	$ 284,161	$ 1,280,649	$ 1,564,810
Interest on Long-Term Debt	698,529	260,735	959,264
Other Income and Deductions - Net	33,988	32,452	66,440
Net Income	$ (380,380)	$ 1,052,366	$ 671,986

RATE OF RETURN

The actual rate of return on Applicant's net investment rate base established herein for the test year was 1.34%. After taking into consideration the pro forma adjustments Applicant would realize a rate of return of 7.36%. 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 Applicant should be allowed to increase its annual revenue by $450,353. This additional revenue will provide a Times Interest Earned Ratio of 2.17 based on net income of $1,122,339 which will be sufficient to meet the requirements in Applicant's mortgages securing its long-term debt. The rates set out in the attached Appendix A are designed to produce revenue of $14,258,271 based on adjusted test year conditions.

RATE DESIGN

The Applicant proposed no changes to its current rate design. A cost of service exhibit was submitted to support the allocation of the increase to each rate class. In general, the Commission has accepted the proposed allocation of the increase in revenues with the exception of the proposed increase to the service charge in each rate class.

On May 30, 1980, the Commission in Cases No. 7150 and 7676 issued its final Order granting Applicant a general increase in rates. When granting this increase, the various customer service charges were increased substantially with the residential and commercial customers receiving an increase in the service charge of approximately 68%.

The Commission is of the opinion that electric utilities should be allowed to move toward coverage of the fixed costs through the customer charge. However, in view of the impact of the May 30, 1980, increases in the customer service charges, the Commission finds that to increase the charge further at this time would place an undue burden on the consumers. Therefore, the Commission will maintain the customer service charges established in Cases No. 7150 and 7676.

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 Jackson Purchase Electric Cooperative Corporation and will produce gross annual revenue sufficient to pay its operating expenses, service its debt and have a reasonable surplus for equity growth.

The Commission further finds that the rates and charges proposed by Applicant would produce revenue in excess of those found to be reasonable herein and therefore must be denied upon application of KRS 278.030.

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 Jackson Purchase Electric Cooperative Corporation are hereby denied.

IT IS FURTHER ORDERED that Jackson Purchase Electric Cooperative Corporation shall file with the Commission within 30 days from the date of this Order its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this the 25th day of June, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Volz
Chairman

Katherine Randall
Vice Chairman

[illegible]
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8098 DATED June 25, 1981

The following rates and charges are prescribed for the customers in the area served by Jackson Purchase 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.

Rates: Monthly

Schedule R - Residential

Service Charge:	Minimum per month	$5.90
Energy Charge:		
First 400 KWH	Per KWH per month	5.187¢
Next 600 KWH	Per KWH per month	3.687¢
Over 1,000 KWH	Per KWH per month	3.386¢

Schedule C - Small Commercial

Service Charge:	Minimum per month	$5.90
Energy Charge:		
First 500 KWH	Per KWH per month	5.187¢
Next 500 KWH	Per KWH per month	4.540¢
Next 5,000 KWH	Per KWH per month	4.140¢
All Over 6,000 KWH	Per KWH per month	3.386¢

Schedule SL - Mercury Vapor Security Lighting

175 Watt mercury vapor lamp	Per month per lamp	$5.65
400 Watt mercury vapor lamp	Per month per lamp	8.42

Schedule CSL - Community & Public Authority Street Lighting

Each 175 Watt mercury vapor lamp	Per month per lamp	$5.65
Each 400 Watt mercury vapor lamp	Per month per lamp	8.42

Schedule D - Commercial and Industrial Single and Three Phase Service (over 25 KVA)

Service Charge:	Minimum per month	$14.75
Demand Charge:	Per KW per month	3.75

Schedule D (Cont'd)

Energy Charge:

First	200 KWH per KW	Per KWH per month	2.479¢
Over	200 KWH per KW	Per KWH per month	2.279¢

Schedule SP - Seasonal Power Service

Rate Per Year:

First	1,500 KWH	Per KWH per year	9.06¢
Next	500 KWH/H.P.	Per KWH per year	6.46¢
All Additional KWH		Per KWH per year	3.76¢

MINIMUM ANNUAL CHARGE:

The minimum annual charge under the above rate shall be:

A.	First 25 connected horsepower or less (minimum)	$290.00
	Balance of connected horsepower Per H.P. per year	9.35

Schedule I - Industrial Service

Rates Monthly:

Demand Charge:

First 5,000 KW of billing demand	Minimum per month	$26,200.00
All Additional KW	Per KW per month	5.24

Energy Charge:

All Energy	Per KWH per month	1.573¢

Schedule ND - Commercial & Industrial & All Other Three Phase Service (under 25 KVA)

Service Charge:	Minimum per month	$6.75

Energy Charge:

First	500	Per KWH per month	5.187¢
Next	500	Per KWH per month	4.540¢
Next	5,000	Per KWH per month	4.140¢
All Over	6,000	Per KWH per month	3.386¢