

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF TAYLOR COUNTY)
RURAL ELECTRIC COOPERATIVE) CASE NO. 8250
CORPORATION FOR AN ADJUSTMENT OF)
RATES)

O R D E R

On May 29, 1981, Taylor County Rural Electric Cooperative Corporation ("Taylor County") filed an application with this Commission giving notice of an adjustment of rates to become effective June 25, 1981. The proposed rates would produce additional revenue of \$607,952 annually, an increase of 6.6 percent based on normalized revenue. By Commission Order, the effective date of the proposed tariffs was suspended until November 25, 1981, pursuant to the provisions of KRS 278.190.

On June 4, 1981, the Consumer Protection Division of the Attorney General's Office filed a motion to intervene in this proceeding, which was sustained. However, on September 2, 1981, the Division notified the Commission that it would not participate in the cross-examination at the hearing.

A hearing was held at the Commission's offices in Frankfort, Kentucky, on September 3, 1981. At the conclusion of the hearing and following responses to all requests for additional information, the matter was submitted for final determination by the Commission.

Commentary

Taylor County is a consumer-owned electric distribution cooperative serving approximately 15,188 consumers in the south central Kentucky counties of Taylor, Green, Adair, and Casey. Taylor County receives all of its power requirements from East Kentucky Power Cooperative.

Test Year

Taylor County proposed and the Commission has adopted the 12-month period ending February 28, 1981, as the test period for determining the reasonableness of the proposed rates. In utilizing the historic test period, the Commission has given full consideration to known and measurable changes where found reasonable.

Valuation

Net Investment

The Commission finds from the evidence of record that Taylor County's net investment rate base at February 28, 1981, is as follows:

Utility Plant in Service	\$ 11,413,910
Construction Work in Progress	11,231
Total Utility Plant	<u>11,425,141</u>
Add:	
Materials and Supplies	\$ 193,157
Prepayments	28,898
Working Capital	166,135
Sub-Total	<u>\$ 388,190</u>
Deduct:	
Depreciation Reserve	\$ 3,472,135
Customer Advances for Construction	88,856
Sub-Total	<u>3,560,991</u>
Net Investment	<u>\$ 8,252,340</u>

Taylor County proposed to include in its calculation of working capital an allowance for 12 days of the cost of purchased power. The Commission has adjusted the provision for working capital to include one-eighth of out-of-pocket operation and maintenance expenses, exclusive of any portion of the purchased power costs. The Commission finds that the time between payment of Taylor County's power bill and receipt of revenues from its rural customers is one factor in the determination of the need for working capital. However, this evidence is not totally conclusive and other factors must be considered. Therefore, in the absence of any persuasive evidence to the contrary, the Commission is of the opinion that a departure from its past policy is unwarranted and will allow only the one-eighth of out-of-pocket operation and maintenance expenses, exclusive of purchased power.

In calculating the net investment rate base, the Commission has adjusted materials and supplies, as well as prepayments, to utilize the 13-month average. The Commission has adjusted the depreciation reserve and utility plant-in-service to reflect the transfer of ownership of nine substations to East Kentucky Power which was approved in Case No. 7853. The depreciation reserve was further adjusted to reflect the pro forma adjustment to depreciation expense found reasonable herein. Also, Taylor County's rate base has been adjusted to reflect the exclusion of customer advances for construction. The Commission is of the opinion that these advances are the equivalent of contributions of capital and, as such, should be excluded from the rate base.

Capital Structure

The Commission finds from the evidence of record that Taylor County's capital structure at the end of the test period was \$9,167,284 and consisted of \$5,521,148 in equity and \$3,646,136 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 \$618,322.

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

Revenues and Expenses

Taylor County proposed several adjustments to revenues and expenses as reflected on its statement of operations shown on page 1 of exhibit B to the application. The Commission finds that the adjustments proposed by Taylor County are generally acceptable for rate-making purposes with the following modifications:

(1) Taylor County proposed an adjustment of \$205,943 to interest expense. The adjustment reflected the annualization of interest expense based on long-term debt outstanding at the end of the test year and additional long-term debt drawn-down through March 1981. The proposed adjustment also included additional interest expense on long-term debt to be issued in connection with Taylor County's next major construction project. This construction project would encompass a 2-year work plan

which at this time has not been approved by this Commission. The additional financing for this project will not be required until a future date which is uncertain at this time. Therefore, the Commission will not adjust interest expense for any additional debt to be drawn-down beyond March 1981. The adjustment to interest expense allowed herein is \$76,824.

(2) Taylor County proposed an adjustment of \$5,174 for increases in postage expenses effective May 1, 1981. The Commission has increased this adjustment by \$2,499 to reflect an additional increase in postage rates which became effective November 1, 1981.

(3) The Commission adjusted Taylor County's base rates in Case No. 8082 on March 13, 1981, to roll-in to the base rates the fuel cost of its wholesale power supplier. In addition to the roll-in of current fuel costs, the Commission revised the method of calculating the monthly fuel adjustment charge to allow for over- and under-recoveries of the preceding month's fuel charge or credit. The result of the revision will allow total recovery of fuel adjustment charges through the fuel adjustment clause. Therefore, the Commission has made an adjustment to revenue of \$28,571 and an adjustment to purchased power expense of \$87,367 to exclude the fuel revenue and cost actually incurred during the test year.

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	\$ 7,394,850	\$ 1,988,481	\$ 9,383,331
Operating Expenses	7,180,175	1,942,299	9,122,474
Operating Income	<u>\$ 214,675</u>	<u>\$ 46,182</u>	<u>\$ 260,857</u>
Interest on Long-Term Debt	127,023	76,824	203,847
Other Income and (Deductions)-Net	<u>20,811</u>	<u>-0-</u>	<u>20,811</u>
Net Income	<u>\$ 108,463</u>	<u>\$ (30,642)</u>	<u>\$ 77,821</u>

Rate of Return

The actual rate of return for the test year on Taylor County's net investment, established herein, was 2.6 percent. After taking into consideration the pro forma adjustments, Taylor County would realize a 3.2 percent rate of return. The Commission is of the opinion that the revised rate of return is inadequate and would impair Taylor County's financial integrity. Therefore, Taylor County should be allowed to increase its annual revenue by approximately \$176,988 which would result in a rate of return of 5.3 percent and a times interest earned ratio of 2.25. This additional revenue will provide net income of approximately \$254,809 which should be sufficient to meet the requirements in Taylor County's mortgages securing its long-term debt.

Summary

The Commission, after consideration of the evidence of record, finds that:

(1) The rates proposed by Taylor County would produce revenues in excess of those found reasonable herein and, therefore, should be denied upon application of KRS 278.030.

(2) The rates in Appendix A, attached hereto and made a part hereof, are the fair, just and reasonable rates for Taylor County and will provide net income sufficient to meet the requirements in Taylor County's mortgages securing its long-term debt.

IT IS THEREFORE ORDERED that the rates in Appendix A, attached hereto and made a part hereof, are approved for service rendered on and after November 25, 1981.

IT IS FURTHER ORDERED that the rates proposed by Taylor County are hereby denied.

IT IS FURTHER ORDERED that Taylor County shall file with this 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 25th day of November, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Vohs
Chairman

Katherine Sandell
Vice Chairman

Jim Carrigan
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 8250 DATED NOVEMBER 25, 1981

The following rates and charges are prescribed for the customers in the area served by Taylor 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
FARM AND HOME SERVICE*

Rates:

Customer Charge	\$ 4.15 Per Meter Per Month
All KWH Per Month	.04454 Per KWH

SCHEDULE GP-1
GENERAL PURPOSE SERVICE (LESS THAN 25 KW)*

Rates:

<u>Demand Charge:</u>	None
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Energy

Customer Charge	\$ 5.15 Per Meter Per Month
All KWH Per Month	.05150 Per KWH

Minimum Monthly Charges:

\$5.15 where 3 KVA or less of transformer capacity is required. Each consumer who requires more than 3 KVA of transformer capacity shall pay, in addition to the above minimum, 86¢ for each additional KVA or fraction thereof required. Where the minimum charge is increased in accordance with the terms of this section, additional energy therefore may be taken in accordance with the terms of the foregoing schedule.

SCHEDULE GP-2
GENERAL PURPOSE SERVICE (GREATER THAN 25 KVA)*

Rates:

Demand Charge:

\$ 2.95 Per KW of Billing Demand

Energy Charge:

All KWH Per Month

\$ 0.03258 Per KWH

*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 12-month moving average of such losses. This Fuel Clause is subject to all other applicable provisions as set out in 807 KAR 50:075.