

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF JACKSON COUNTY)
RURAL ELECTRIC COOPERATIVE)
CORPORATION OF MCKEE,) CASE NO. 9650
KENTUCKY, FOR AN ORDER)
AUTHORIZING THE ADOPTION OF)
NEW INDUSTRIAL TARIFFS)

O R D E R

On October 16, 1986, the Commission approved amended Wholesale Schedule C, in Case No. 9582, The Notice of East Kentucky Power Cooperative, Inc., of a Revision to its Wholesale Electric Power Tariff. In its Order, the Commission stated that it preferred a methodology for passing through East Kentucky Power Cooperative, Inc.'s ("EKPC's") wholesale rate Schedule C to retail rates which maintained the same net income for the member cooperatives.

On November 25, 1986, the Commission denied Jackson County Rural Electric Cooperative Corporation's ("Jackson County's") proposed rate Schedule 46 on the basis that in passing through wholesale rate Schedule C it did not have a neutral effect on net income. Based on a test year ending June 30, 1986, Schedule 46 would have reduced Jackson County's income net of power costs by approximately \$86,000. Jackson County's rationale for proposing Schedule 46 included wanting equitable industrial rates among the members of the EKPC system, encouraging economic development,

being competitive with other utilities, promoting a higher load factor and expecting Mount Vernon Plastics Corporation's ("Mt. Vernon's") electrical load to increase to the point where Jackson County should be able to furnish electric service under Schedule 46 without jeopardizing its financial condition. Jackson County provided no support for the expectation of an increased load.

On December 4, 1986, Mt. Vernon filed a motion for reconsideration and for hearing in this case. On December 5, 1986, Jackson County filed a petition for rehearing in this case.

Mt. Vernon wanted to present evidence in regard to Schedule 46. In its motion Mt. Vernon stated that with the rate reduction under Schedule 46, it would be able to continue rapid growth and greatly increase its usage, and without the rate reduction its present usage would diminish or expire.

In its petition Jackson County stated that it and Mt. Vernon could produce proof that Mt. Vernon's electric load would increase to the point where Jackson County could provide service under Schedule 46 with no loss of net income.

On December 24, 1986, the Commission granted the petitions for reconsideration. On January 23, 1987, Mt. Vernon filed the testimony of three witnesses, A. F. Humphries, Consultant; O. J. Touratsos, President; and Robert F. Keppler, Corporate Controller and Secretary. Jackson County filed the testimony of two witnesses, Lee Roy Cole, General Manager, and James R. Adkins, Manager of Rates at EKPC. A public hearing was held at the Commission's offices in Frankfort, Kentucky, on February 24, 1987.

Mr. Touratsos testified that electricity costs were a significant portion of Mt. Vernon's total costs, approximately 10 percent, and that Mt. Vernon was becoming more energy intensive. He stated that Mt. Vernon had been contacted by other utilities. Mr. Humphries added that both Kentucky Utilities Company and TVA had rates lower than proposed rate Schedule 46.

Mt. Vernon's electricity load has been growing. Mr. Humphries has determined that at sales levels to Mt. Vernon in October and November 1986 proposed Schedule 46 would provide annual margins to Jackson County of \$125,568. Mr. Humphries stated that the margin provided by Mt. Vernon at existing rates on a test year ending May 1985 was \$128,834. Mr. Keppler forecasted increased electricity usage for Mt. Vernon if Schedule 46 were approved. Mr. Adkins added that access to Schedule 46 was dependent upon the customer executing a long-term contract with Jackson County with a contract demand of at least 1,000 KW subject to a 100 percent ratchet.

Mr. Humphries noted that the Commission had approved comparable rate schedules for Shelby Rural Electric Cooperative Corporation and Owen County Rural Electric Cooperative Corporation.

The Commission, having considered the evidence of record and being advised, is of the opinion and finds that:

(1) Mt. Vernon is the only customer that currently qualifies for Jackson County's proposed Schedule 46. Projected revenue net of power cost from Mt. Vernon under Schedule 46 is comparable to net revenue provided by Mt. Vernon at existing rates as recently

as 1985. The schedule passes through EKPC's wholesale rate Schedule C. Schedule 46 is reasonable and just and should be accepted.

(2) Acceptance of Schedule 46 is a departure from the Commission's traditional rate-making objectives because the Schedule is not based on cost of service. Thus, Jackson County should provide in October 1987 a report to the Commission which lists the customers served through Schedule 46, identifies whether they are existing, expanding or new customers, states the associated load of these customers and estimates the effect on Jackson County's revenue and net income.

IT IS THEREFORE ORDERED that:

(1) Jackson County's rate Schedule 46 be and it hereby is approved for service rendered on and after the date of this Order.

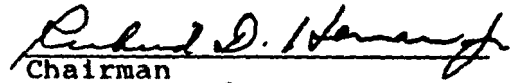
(2) Jackson County shall file with the Commission a signed copy of Schedule 46 within 20 days of the date of this Order.

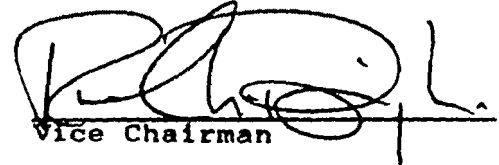
(3) Jackson County shall file with the Commission in October 1987 a report which provides an update on the implementation of Schedule 46.

(4) Jackson County shall file with the Commission a copy of each power supply contract, within 10 days of its execution, for each customer to be served under Schedule 46.

Done at Frankfort, Kentucky, this 3rd day of April, 1987.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director