

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

NOTICE AND APPLICATION OF JACKSON)	
PURCHASE ELECTRIC COOPERATIVE)	
CORPORATION FOR PERMISSION TO FLOW)	
THROUGH A WHOLESALE RATE INCREASE)	CASE NO. 10277
FILED BEFORE THE KENTUCKY PUBLIC)	
SERVICE COMMISSION BY BIG RIVERS)	
ELECTRIC CORPORATION, DOCKET NO.)	
10265)	

O R D E R

By Order dated December 27, 1988, the Commission authorized Jackson Purchase Electric Cooperative Corporation ("Jackson Purchase") to flow through \$1,090,192 of a \$1,887,574 increase in its purchased power costs. On January 13, 1989, Jackson Purchase applied for a rehearing on the Commission's treatment of tree trimming expenses in that Order. Jackson Purchase's application was granted on February 1, 1989.

Jackson Purchase first proposed an adjustment to its test-year tree trimming expense at the November 16, 1988 hearing in its application for rate adjustment. It contended that its actual test-year expenses for tree trimming work were not representative of a normal year's expenses, and that \$127,518 in additional tree trimming work, budgeted for the test year, but not performed, should be used in determining Jackson Purchase's revenue requirements. Jackson Purchase, however, provided no supporting evidence for the proposed adjustment. The Commission, finding that Jackson

Purchase had not shown the proposed adjustment to be reasonable, known, and measurable, did not accept it.

Jackson Purchase's tree trimming expenses are derived from two sources: its 5-year trimming rotation program and its normal service line trimming. In 1985 Jackson Purchase initiated a program to trim all rights-of-way once every 5 years. The program is divided into projects, each project involving all distributional rights-of-way served by a particular substation. Each project is separately bid out to contractors. The rotation program does not include tree trimming around service lines. That trimming, performed by two-man work crews throughout the year, is contracted out separately.

Jackson Purchase's proposed adjustment is based solely on an expense related to its 5-year rotation program which was deferred during the test year. In its application for rehearing, Jackson Purchase contends that a rotation program project totalling \$127,518 was budgeted for the test year but not performed. As a result of this project's deferral, Jackson Purchase asserts, its test-year tree trimming expenses were substantially below those incurred in 1985 and 1986, as well as 1988, the 12 months immediately following the test year. Jackson Purchase has presented no evidence to suggest that the annual expenses of the rotation program will, on a recurring basis, exceed the test-year expense by \$127,000. Despite Commission requests for further information on the rotation program, Jackson Purchase has not provided any studies to support its use of a 5-year rotation plan or the assumptions or calculations used to develop its annual budgets for

the program. The Commission, therefore, is unable to allow the proposed adjustment to tree trimming expenses for rate-making purposes.

The Commission believes, however, that some adjustment to the test-year tree trimming expense is necessary in order to provide a reasonable ongoing level of expense. It recognizes that tree trimming expenses may fluctuate from year to year. In considering the revenue requirements of a utility, an adjustment may be necessary to accurately reflect the normal ongoing level of expense, if the test-year expense varies significantly from normal levels. The record reflects that Jackson Purchase's test-year tree trimming expenses were below those incurred in 1985, 1986, and 1988 and suggests that the test-year expense level is not representative of a normal level of expense.

Based on Jackson Purchase's historical tree trimming expenses for 1986, 1987, and 1988, the Commission has determined that an adjustment of \$121,824 should be made. This adjustment is calculated as follows: To obtain the expenses attributable to the 5-year rotation program, an actual cost per mile was determined by dividing the awarded contract cost for all projects by the numbers of miles covered by those projects. An average annual cost for the rotation program was determined by multiplying this cost by the total miles in one complete rotation and then dividing by 5 years. Expenses associated with service line trimming were determined by applying 1988 contractor rates to the average of total equipment hours for 1986, 1987, and 1988 and to total labor hours for a two-man trimming crew working throughout the year. The

expenses from both components were then added together, and the actual test-year tree trimming expense subtracted from their sum. The Commission recognizes that this is not the best method of calculating this adjustment but, given the limited information presently available on Jackson Purchase's rotation program, considers it acceptable.

While the allowed adjustment closely approximates Jackson Purchase's proposed adjustment, it is based on total ongoing tree trimming expenses, not deferred expenses. The Commission advised Jackson Purchase that in future proceedings adjustments of this nature should be documented and supported by cost projections based on sound economic forecasting methods. Documentation, at a minimum, should include all workpapers used in the determination of the amount of the adjustment, any studies which support the need for cyclical maintenance expenses as well as a thorough explanation as to why the proposal will result in a reasonable, ongoing level of expense.

By the December 27, 1988 Order, Jackson Purchase was granted an increase in revenues of \$1,090,192. Based on the Commission's determination that the tree trimming expenses should be increased by \$121,824, additional revenues of \$121,989 should be granted. The increase reflects \$165 of additional revenues to cover the annual regulatory assessment expense, which is based on a percentage of gross revenues. The adjusted revenues will produce a net income of \$1,442,594, which was found to be sufficient in the December 27, 1988 Order.

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. The rates in Appendix A, attached and incorporated hereto, are the fair, just, and reasonable rates for Jackson Purchase and will produce gross annual revenues based on normalized test-year sales of approximately \$25,673,268.

2. Jackson Purchase's proposed adjustment to tree trimming expenses is not supported by the evidence and should be denied.

3. Jackson Purchase's test-year tree trimming expenses should be adjusted upward by \$121,824 to more accurately reflect its tree trimming expenses.

4. The adjustments as determined herein indicate that Jackson Purchase should be granted additional revenues of \$121,989.

5. All other provisions of the Commission's Order of December 27, 1988 should be affirmed.

IT IS THEREFORE ORDERED that:

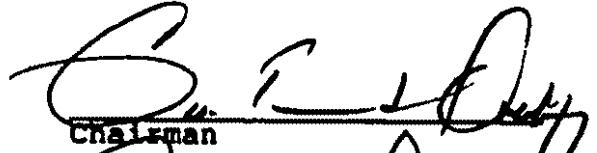
1. The rates in Appendix A be and they hereby are approved for service rendered by Jackson Purchase on and after the date of this Order.

2. All other provisions of the Commission's Order of December 27, 1988 are hereby affirmed.

3. Within 30 days from the date of this Order, Jackson Purchase shall file with this Commission its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 29th day of June, 1989.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 10277 DATED 6/29/89

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

<u>Service Charge:</u>	Minimum per month \$ 6.15
<u>Energy Charge:</u>	
First 400 KWH	Per KWH per month .07836
Next 600 KWH	Per KWH per month .05652
Over 1,000 KWH	Per KWH per month .05217

SCHEDULE C - SMALL COMMERCIAL

<u>Service Charge:</u>	Minimum per month \$ 6.15
<u>Energy Charge:</u>	
First 500 KWH	Per KWH per month \$.07852
Next 500 KWH	Per KWH per month .06911
Next 5,000 KWH	Per KWH per month .06331
Over 6,000 KWH	Per KWH per month .05234

SCHEDULE D - COMMERCIAL AND INDUSTRIAL SERVICE & THREE
PHASE SERVICE

<u>Service Charge:</u>	Minimum per month \$15.00
<u>Energy Charge:</u>	
First 200 KWH	Per KWH per month \$.03841
Over 200 KWH	Per KWH per month .03552
<u>Demand Charge:</u>	
Per KW Per Month	\$5.58

SCHEDULE SP - SEASONAL POWER SERVICE

Rate Per Year:

First 1,500 KWH	Per KWH per year	\$.13524
Next 500 KWH/H.P.	Per KWH per year	.09743
All Additional KWH	Per KWH per year	.05815

MINIMUM ANNUAL CHARGE:

The minimum annual charge under the above rate shall be:

A. First 25 connected horsepower or less (minimum) \$309.00
Balance of connected horsepower Per H.P. per year 9.99

SCHEDULE I - INDUSTRIAL SERVICE

Rates Monthly:

Demand Charge:

First 3,000 KW of billing demand	Minimum per month	\$28,062
All additional KW	Per KW per month	\$ 9.354

Energy Charge:

All KWH Per KWH per month \$.019492

SCHEDULE OL - OUTDOOR LIGHTING

175 Watt MV	Per month per lamp	\$ 6.90
400 Watt MV	Per month per lamp	10.31
100 Watt HPS	Per month per lamp	6.86
250 Watt HPS	Per month per lamp	9.14
250 Watt HPS (Flood)	Per month per lamp	9.64

SCHEDULE ND - COMMERCIAL & INDUSTRIAL & ALL OTHER THREE PHASE
SERVICE (UNDER 25 KVA)

Service Charge: Minimum per month \$7.00

Energy Charge:

First 500	Per KWH per month	\$.07852
Next 500	Per KWH per month	.06910
Next 5,000	Per KWH per month	.06331
All Over 6,000	Per KWH per month	.05234