

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 PORTION OF THE) CASE NO. 97-224
GENERAL RATE DECREASE FILED BEFORE)
THE KENTUCKY PUBLIC SERVICE)
COMMISSION BY BIG RIVERS ELECTRIC)
CORPORATION, CASE NO. 97-204)

O R D E R

On July 11, 1997, Jackson Purchase Electric Cooperative Corporation ("Jackson Purchase") applied for approval of tariffs which reflect proposed reductions in the rates of its wholesale supplier Big Rivers Electric Corporation ("Big Rivers").¹ The decrease in power costs proposed by Big Rivers became effective September 2, 1997, subject to further modification. Jackson Purchase's proposed rates became effective simultaneously subject to possible refund.

Unlike the other distribution cooperatives that purchase their wholesale power from Big Rivers, Jackson Purchase did not propose to pass to its ratepayers the entire purchase power savings resulting from the proposed Big Rivers' rates. Instead it proposed to retain approximately \$934,265 of the \$4,110,445 annual reduction.

¹ Case No. 97-204, The Application of Big Rivers Electric Corporation, Louisville Gas and Electric Company, Western Kentucky Energy Corp., Western Kentucky Leasing Corp., and LG&E Station Two Inc. for Approval of Wholesale Rate Adjustment for Big Rivers Electric Corporation and For Approval of Transaction (filed June 30, 1997).

After permitting Jackson Purchase's proposed rates to become effective subject to refund, the Commission established a procedural schedule in this matter and permitted the Attorney General of the Commonwealth of Kentucky and Kevin Cherry to intervene as parties. After the parties conducted extensive discovery, the Commission on January 21, 1998 held a public hearing. At this hearing, the parties submitted a Settlement Agreement for the Commission's review and approval.

The Settlement Agreement provides, inter alia, that:

- Jackson Purchase should have retail rates that allow it to retain \$588,000 of any purchased power cost savings.
- The reduction in Jackson Purchase's rates arising from the settlement (as opposed to any modification in Big Rivers' wholesale rates) should be allocated in the following manner:
 - Schedule R (Residential) - 59.62%
 - Schedule C (Small Commercial) - 7.20%
 - Schedule ND (Commercial and Industrial) - 1.63%
 - Schedule D (Commercial and Industrial) - 31.00%
 - Schedule SP (Seasonal Power) - 0.00%
 - Schedule SL (Street Lighting) - 0.55%
 - Schedule I (Industrial) - 0.00%
- For Schedules R (Residential), C (Small Commercial) and ND (Commercial and Industrial), all revenues above the monthly service charge will be collected with a single flat rate block. Schedule D will remain in its present form.
- Jackson Purchase shall refund any excess amounts collected under its interim rates on a class basis and by a per kWh credit. Such refunds shall be completed by December 31, 1998.
- Any changes to Big Rivers' wholesale rates that require further changes to Jackson Purchase's rates shall be prospective only and shall be allocated in the same manner as agreed above.
- Should Jackson Purchase's revenues generate a Times Interest Earned Ratio ("TIER") in excess of 2.0, all revenues over a TIER of

2.0 shall be refunded to Jackson Purchase's members through the retirement of capital credits.

When the rates that the Commission has approved for Big Rivers are considered, the Settlement Agreement provides for Jackson Purchase's retention of \$588,000 of \$4,174,349 of annual purchase power cost savings and a reduction of \$3,586,349 annually in charges for Jackson Purchase's ratepayers.

After careful review of the Agreement, the Commission finds that, except as noted below, the Settlement Agreement's terms are reasonable and that its rate design and terms of service provisions are in conformity with generally accepted rate-making standards. The Commission further finds that, except as noted below, the Settlement Agreement is in the public interest and should be approved.²

The Settlement Agreement provision that permits Jackson Purchase until December 31, 1998 to refund any excess amounts collected under its interim rates is unlawful. KRS 278.190(4) requires that all refunds be made within 60 days of a final determination of the Commission. The Commission therefore rejects this provision and directs that all refunds be made within 60 days of this Order.

² The Commission notes its concern with the methodology that Jackson Purchase will use to determine whether a capital credit retirement is required. When calculating its net margins for purposes of retiring capital credits, Jackson Purchase will use actual expenses. It will not exclude from its calculations those expenses which the Commission has historically disallowed for rate-making purposes. See Jackson Purchase's Response to the Commission's Order of March 6, 1998, Item 3. All patronage capital refunding plans that the Commission has previously approved have excluded such expenses from their calculation of net margins. While the Commission disfavors the inclusion of such expenses in these calculations, it recognizes that the plan is a product of negotiations and accepts this provision of the Settlement Agreement.

The Commission notes that Jackson Purchase in its application also requested approval to use remaining life depreciation technique and to adopt remaining life depreciation rates for accounting purposes. While the Settlement Agreement is silent on this issue, the parties have agreed to rates for utility service which are based upon these revised depreciation rates. Accordingly, the utility should begin booking depreciation at the proposed depreciation rates and should file a new depreciation study with the Commission with its next application for general rate adjustment or within 3 years, whichever occurs first.

IT IS THEREFORE ORDERED that:

1. The terms and conditions set forth in the Settlement Agreement, except for those contained in Paragraph 6(b), are adopted and approved.
2. The rates set forth in Appendix A to this Order are approved for service rendered on and after April 30, 1998.
3. Within 14 days of the date of this Order, Jackson Purchase shall file its revised tariff sheets setting forth the rates approved herein.
4. Jackson Purchase shall, within 14 days of the date of this Order, file a plan for refunding all excess amounts collected under its interim rates.
5. Jackson Purchase shall, within 60 days of the date of this Order, refund all excess amounts collected under its interim rates.
6. Jackson Purchase shall begin booking its depreciation expense at the proposed depreciation rates immediately.

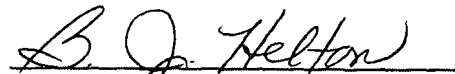
7. Jackson Purchase shall file a new depreciation study with the Commission when submitting its next application for general rate adjustment or within 3 years, whichever occurs first.

8. Jackson Purchase shall, no later than April 30, 2000, file with the Commission its agreed to plan for a capital credit rotation or refund program which requires Jackson Purchase to refund all revenues collected in excess of a 2.0 TIER during the 1998 calendar year or during any subsequent calendar year.

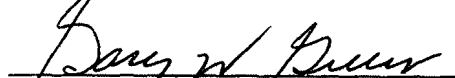
9. On March 31, 1999 and each year thereafter, Jackson Purchase shall submit a written report to the Commission on the status of its patronage capital credit rotation for the prior calendar year.

Done at Frankfort, Kentucky, this 6th day of May, 1998.


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 97-224 DATED MAY 6, 1998

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 effective date of this Order.

SCHEDULE R
RESIDENTIAL

Monthly Rate:

Service Charge	\$7.00
Energy Charge per KWH	.05723

SCHEDULE C
SMALL COMMERCIAL

Monthly Rate:

Service Charge	\$7.00
Energy Charge per KWH	.05795

SCHEDULE D - COMMERCIAL AND INDUSTRIAL
SERVICE AND THREE-PHASE SERVICE

Monthly Rate:

Service Charge	\$25.00
Demand Charge per KW	4.95
Energy Charge per KWH	
First 200 KWH	.03774
Next 200 KWH	.03055
Next 200 KWH	.02691
Over 600 KWH	.02302

SCHEDULE SP
SEASONAL POWER SERVICE

Rate Per Year

All KWH per KWH per year	\$.08569
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SCHEDULE OL
OUTDOOR LIGHTING

Monthly Rate:

175 Watt Mercury Vapor Lamp per lamp	\$6.51
400 Watt Mercury Vapor Lamp Per lamp	9.69
100 Watt High Pressure Sodium per lamp	6.51
250 Watt High Pressure Sodium per lamp	8.62
250 Watt High Pressure Sodium per lamp (Flood)	9.10
175 Watt Metal Halide per lamp	11.00
400 Watt Metal Halide per lamp	15.37
1000 Watt Metal Halide per lamp	21.68
100 Watt HPS \$15.32 FC on CSL per lamp	16.21
100 Watt HPS \$14.64 FC on CSL per lamp	15.53

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

Monthly Rate:

Service Charge	\$15.00
All KWH per KWH	.05638

SCHEDULE I
INDUSTRIAL SERVICE

Monthly Rate:

<u>Demand Charge</u>		
First 3,000 KW of Billing Demand Minimum per month		\$31,440.00
All additional KW	Per KW per month	\$10.48
 <u>Energy Charge</u>		
All Energy	Per KWH per month	\$.015452