COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

ADJUSTMENT OF RATES OF ) CLARK RURAL ELECTRIC ) CASE NO. 8575 COOPERATIVE CORPORATION )

## ORDER

On September 27, 1982, Clark Rural Electric Cooperative Corporation ("Clark") filed an application with this Commission requesting to increase its annual revenue by $608,115, or 6.11 percent. On October 18, 1982, Clark filed revised information which in effect increased its requested increase to $615,946, an increase of 6.19 percent. Clark stated that the proposed rate adjustment was required due to increases in interest rates as well as increases in the cost of labor and materials. Based on the determination herein, Clark has been granted an increase in revenue of $615,946, annually, the full amount of Clark's requested increase.

On November 29, 1982, the Commission scheduled a public hearing on the matter and directed Clark to give notice to its consumers of the proposed rates and the hearing scheduled for January 28, 1983.

On October 15, 1982, the Consumer Protection Division in the Office of the Attorney General moved to intervene in this proceeding pursuant to KRS 367.150(8), which motion was granted. No other parties formally intervened herein.

## COMMENTARY

Clark is a consumer-owned rural electric cooperative engaged in the distribution and sale of electric energy to approximately 14,163 member-consumers in the Kentucky counties of Bourbon, Clark, Madison, Powell, Bath, Menifee, Estill, Rowan, Fayette, Morgan, Wolf and Montgomery. Clark obtains all of its power from East Kentucky Power Cooperative, Inc., ("EKP").

## TEST PERIOD

Clark proposed and the Commission has accepted the 12-month period ending June 30, 1982, 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 appropriate known and measurable changes.

## VALUATION

### Net Investment

Clark proposed a net investment rate base of $14,262,078. The Commission concurs with this proposal with the following exceptions:

Clark proposed to adjust construction work in progress ("CWIP") to include the effects of the portion of the pro forma expense adjustments on CWIP. Furthermore, Clark proposed to reduce CWIP and increase plant in service to reflect items of plant transferred from CWIP to plant in service after the end of the test period. The assumptions made by Clark in its adjustments to CWIP were that construction costs would be $116,225 greater based on the increased level of wages and salaries, workers compensation, retirement insurance and FICA expenses charged to construction during the test year, and that certain items of plant which were completed during the test period but not recorded in plant in service until the month after the close of the test period should be included in plant in service.

The objective of the Commission in determining a test year-end rate base is to establish the value of Clark's investment in plant devoted to public use at the end of the test year. The level of investment is also representative of test period operations and the Commission does not make adjustments to reflect future operating conditions. Clark did not propose to adjust operating revenues and expenses associated with the addition of new facilities. Therefore, in accordance with past practice, the Commission has allowed only the amount of CWIP reflected on the balance sheet at the end of the test period.

The Commission has adjusted accumulated depreciation to reflect the pro forma adjustment to depreciation expense found reasonable herein. Also, the provision for working capital has been increased to reflect the pro forma adjustments to operation and maintenance expenses allowed herein for rate-making purposes.

Based on the Commission's adjustments, Clark's net investment rate base for rate-making purposes is as follows:

Net Investment

| | |
|---|---|
| Utility Plant in Service | $17,577,679 |
| Construction Work in Progress | 150,215 |
| Total Utility Plant | $17,727,894 |
| | |
| Add: | |
| Materials and Supplies | $ 146,513 |
| Prepayments | 17,143 |
| Working Capital | 217,350 |
| Subtotal | $ 381,006 |
| | |
| Deduct: | |
| Accumulated Depreciation | $ 3,910,796 |
| Customer Advances for Construction | 48,310 |
| Subtotal | $ 3,959,106 |
| | |
| Net Investment | $14,149,794 |

Capital Structure

The Commission finds from the evidence of record that Clark's capital structure at the end of the test year was $15,808,044 and consisted of $3,831,855 in equity and $11,976,189 in long term debt. In the determination of this capital structure, the Commission has excluded accumulated generation and transmission capital credit assignments in the amount of $465,661.

REVENUES AND EXPENSES

Clark proposed several adjustments to revenues and expenses to reflect more current and anticipated operating conditions. The Commission finds the proposed adjustments are generally proper and acceptable for rate-making purposes with the following modifications:

## Fuel Adjustment Revenue and Expense

The Commission adjusted Clark's base rates in Case No. 8415-C to roll into the base rates the fuel cost of its wholesale power supplier. Furthermore, Clark has a provision in its fuel adjustment clause which allows total recovery of fuel costs. Therefore, the Commission has adjusted revenue by $637,810 and purchased power expense by $637,878 to exclude the fuel revenue and cost actually incurred during the test year.

## Pole Inventory Expense

During the test period Clark incurred $10,833 in expenses related to a physical inventory of joint use pole attachments of various telephone utilities. This expense included $9,023 in labor charges and $1,810 in transportation charges which were reported in Account 588, Miscellaneous Distribution Expense. Clark takes a physical inventory of the poles every 5 years and bills the telephone companies for the cost of this inventory as a part of the joint use rental fee under a predetermined formula. In accordance with the Uniform System of Accounts, the expenses related to the inventory of the poles should have been set up as a deferred account and amortized over a 5-year period. Therefore, the Commission has removed the expenses related to the physical inventory of joint use pole attachments from Clark's operating expenses and included $2,167 in amortization expense to spread this cost over a 5-year period for rate-making purposes.

Expenses Related to Case 8415-C

In June, 1982, Clark was granted a flow-through of a wholesale power cost increase (Case No. 8415-C) from EKP, its sole power supplier. The record reflects tht the test period in this case includes a payment of $4,264 for outside services in relation to the flow-through.[1] On December 18, 1981, Clark and each of the 17 other member cooperatives of EKP filed a motion with the Commission to allow a deviation from the Commission's regulations and to allow the member cooperatives to flow through to their member/consumers the wholesale electric power cost in Case No. 8400, EKP's last wholesale rate increase. In support of the motion the Applicants referred to the considerable cost savings in filing pursuant to a Purchased Power Adjustment Clause which eliminates the need for outside professional services. On February 3, 1982, the Commission granted the deviation. The Commission also on two separate occasions held meetings with the cooperatives in order to discuss and explain the Purchased Power Adjustment Clause. All of EKP's members except two used the Purchased Power Adjustment in filing the 1981 flow-through application.

1 Clark's response to request for information during public hearing, item 8, page 1 of 1.

It is the Commission's opinion that the professional service expenses incurred by Clark in connection with the flow through were unnecessary and, therefore, should not be included for rate-making purposes in this case. Clark, as one of the applicants requesting the deviation, recognized the potential savings to be attained with the purchased power adjustment clause, yet choose not to use it in filing its flow through case. It is without question the responsibility of Clark's management to avail itself of reasonable cost saving opportunities such as this. Therefore, the Commission has removed the expenses incurred for outside services in relation to the application to flow through EKP's most recent rate request for rate-making purposes herein.

Director Fees Expense

The directors of Clark have adopted a policy of providing compensation for actual expenses while in attendance at industry association meetings. In addition, Clark provides a per diem allowance of $75 for each director attending the association meetings. Considering the various other expenses which Clark has reimbursed and the current state of the economy, the Commission is of the opinion that the $75 per diem allowance is excessive and unreasonable. Therefore, the Commission finds that Clark should discontinue its practice of providing this per diem allowance and has reduced directors fees by $2,950 to exclude the actual cost of per diem allowances paid to director's during the test year.

Christmas Bonuses

Clark follows the practice of granting each full- time employee a $150 Christmas bonus each year. The total cost of Christmas bonuses granted during the test year was $8,550. While the Commission feels that these bonuses are a nice fringe benefit and good for employee-employer relations, no evidence has been presented that the salaries and benefits paid by Clark are not adequate exclusive of this annual bonus. Moreover, the Commission is aware that during these difficult economic times many of Clark's customers do not have employment much less any hope of receiving a Christmas bonus in any form. In an era of high unemployment and belt tightening by consumers and businesses alike the Commission simply can not justify allowing the customers of Clark to bear the cost of these Christmas bonuses. Therefore, the Commission has excluded this expense for rate-making purposes herein.

Employee Benefits Expense

Through the National Rural Electric Cooperative Association ("NRECA") Clark provides life, medical, disability and accident insurance for its employees.

Effective January 1, 1983, NRECA raised its monthly premium to Clark in an amount totaling $44,425 annually. Of this amount the portion charged to expense totals $26,004. Therefore, the Commission has increased Clark's operating expenses to reflect this increased cost.

Payroll Tax Expense

Effective January 1, 1983, the base wages subject to the Federal Insurance Contribution Act Tax of 6.7 percent increased from $32,400 to $35,700. In addition the Federal Unemployment Insurance Tax of .7 percent on base wages of $6,000 in 1982 has been increased to .8 percent on base wages of $7,000 for 1983. The net effect of these changes is to increase Clark's payroll tax expense by $1,872. During the test year Clark charged 64.42 percent of payroll taxes to expense while capitalizing the remainder. Therefore, the Commission has increased Clark's operating expenses by $1,206 to reflect the increased payroll tax expense properly charged to expense.

Depreciation Expense

Clark proposed an adjustment to increase depreciation expense by $20,160 to reflect the annual depreciation expense based on the level of plant in service at the end of the test year. In determining the adjustment, Clark included $96,722 of plant transferred from CWIP to plant in service after the end of the test period. As noted in the net investment section of this Order the Commission has not accepted this adjustment in determining Clark's rate base and has, therefore, excluded depreciation of $2,902 associated with this plant in computing Clark's depreciation expense resulting in an adjustment of $17,258.

Interest on Long-Term Debt

Clark proposed an adjustment of $38,561 to annualize interest expense on long-term debt outstanding at the end of the test year as well as loan funds in the amount of $700,000 drawn down 1 month subsequent to the test year. In accordance with past policy the Commission will allow an adjustment of $41,590 which is based on annual interest on the balance of long-term debt outstanding as of January 31, 1983, and the applicable interest rates at that date. This includes the additional interest expense on CFC loan C-08 which increased from 9.25 percent to 13 percent upon renewal on December 31, 1982.

Property Tax

Clark proposed an adjustment of $6,255 to reflect increased property tax rates. Subsequent to the filing of this case Clark has received its state, county and city tax bills which reflect $3,565 more tax than estimated by Clark in its adjustment. Therefore, the Commission has increased Clark's adjustment to $9,820 to reflect the actual property taxes related to the test period.

The effect of the revised pro forma adjustments on net income is as follows:

| | Actual Test Year | Pro Forma Adjustments | Adjusted Test Year |
|---|---|---|---|
| Operating Revenues | $9,309,798 | $ 430,664 | $9,740,462 |
| Operating Expenses | 8,600,598 | 543,784 | 9,144,382 |
| Operating Income | $ 709,200 | $(113,120) | $ 596,080 |
| Interest on Long-Term Debt | 578,327 | 41,590 | 619,917 |
| Other Income and (Deductions) - Net | 174,423 | (61,293) | 113,130 |
| Net Income | $ 305,296 | $(216,003) | $ 89,293 |

REVENUE REQUIREMENTS

The actual rate of return on Clark's net investment rate base established herein for the test year was 5.01 percent. After taking into consideration the pro forma adjustments Clark would realize a rate of return of 4.21 percent. The Commission is of the opinion that the adjusted rate of return is inadequate and a more reasonable rate of return would be 8.56 percent. In order to achieve this rate of return Clark should be allowed to increase its annual revenue by $615,946 which would result in a Times Interest Earned Ratio("TIER") of 2.14, the TIER requested by Clark. This additional revenue will produce net income of $705,239 which should be sufficient to meet the requirements in Clark's mortgages securing its long-term debt.

## RATE DESIGN AND REVENUE ALLOCATION

Clark proposed to allocate a smaller percentage increase in revenue to the residential rate class with approximately equal percentage increases to all other rate classes. Clark's witness, Mr. Bradley, testified that the proposed method of revenue allocation to the rate classes was based upon the request of EKP for an increase in its wholesale demand rate which meant that rates should be increased in non-residential rate classes where kw demand is greater. However, Mr. Bradley could not say why it is believed that kw demand is greater in non-residential rate classes. The Commission is of the opinion that approximately equal percentage increases in residential and non-residential rate classes is reasonable as a method of allocating the increase in revenue granted herein.

Clark proposed to change its existing rate design in Schedules R and E by reducing the number of rate block steps in both classes. Under the proposed rate design in these classes, Clark proposed allocating the revenue increase to the specific charges with less of an increase at the higher usage levels and much larger percentage increases in the minimum bills. The purpose of this method of revenue allocation within these rate classes was to provide for a cost recovery of increased wholesale demand charges Clark expects to experience from its power supplier and to provide an incentive for the continued use of electric heat. The Commission is of the opinion that the changes in rate design proposed by Clark are reasonable and should be accepted and that the increase in revenue to Schedules R and E should be allocated to the charges within these classes to reduce the variances in the percentage increases at the minimum bills and the higher usage levels.

## SUMMARY

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

(1) The rates in Appendix A are the fair, just and reasonable rates for Clark and will provide net income sufficient to meet the requirements in Clark's mortgages securing its long-term debt.

(2) The rates and charges proposed by Clark differ from those found reasonable herein and should be denied upon application of KRS 278.030.

IT IS THEREFORE ORDERED that the rates in Appendix A be and they hereby are approved for service rendered on and after April 1, 1983.

IT IS FURTHER ORDERED that the rates proposed by Clark be and they hereby are denied.

IT IS FURTHER ORDERED that Clark 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 1st day of April, 1983.

PUBLIC SERVICE COMMISSION

Chairman

Katherine Randall

Vice Chairman

Commissioner

ATTEST:

Secretary

# APPENDIX

APPENDIX TO AN ORDER TO THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 8575 DATED APRIL 1, 1983

The following rates and charges are prescribed for the customers in the area served by Clark 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 R

FARM AND HOME SERVICE*

Rates:

| | | | |
|---|---|---|---|
| First | 25 KWH (Minimum Bill) | $4.80 | per month |
| Next | 575 KWH per KWH | .06681 | |
| Over | 600 KWH per KWH | .05270 | |

Minimum Charge:

The minimum monthly charge shall be $4.80.

## SCHEDULE A & B
## COMERCIAL AND INDUSTRIAL LIGHTING AND POWER SERVICE*

Rates:

Demand Charge

| | |
|---|---|
| First 10 KW of Billing Demand | No Charge |
| Over 10 KW of Billing Demand | $4.00 Per KW |

| Energy Charge | A<br>Less Than<br>10 KW Demand | B<br>More Than<br>10 KW Demand |
|---|---|---|
| First 80 KWH (Min. Bill) | $10.40 | $10.20 |
| Next 20 KWH per KWH | .12747 | .12496 |
| Next 900 KWH per KWH | .07215 | .07155 |
| Next 1,000 KWH per KWh | .06481 | .06445 |
| Over 2,000 KWH per KWH | .05768 | .05755 |

Minimum Monthly Charge:

The minimum monthly charge shall be $10.40 single-phase service and $30.60 for three-phase service.

Minimum Annual Charge for Seasonal service:

Consumers requiring service only during certain seasons of the year shall be billed under the above schedule plus 25 percent and the minimum monthly charge shall not apply. There shall be a minimum annual charge sufficient to assure adequate compensation for the facilities insalled to serve the consumer, but in no case, less than $124.80 per year for single-phase service and $367.20 per year for three-phase service nor less than $50.52 per kilowatt of maximum demand established during the year.

## SCHEDULE E
## SERVICE TO SCHOOLS, CHURCHES, AND COMMUNITY HALLS*

RATES:

| | | |
|---|---|---|
| First | 25 KWH (Minimum Bill) | $4.85 per month |
| Next | 975 KWH per KWH | .07665 per KWH |
| Over | 1,000 KWH per KWH | .05847 per KWH |

Minimum Charge:

The minimum monthly charge shall be $4.85.

## SCHEDULE SL-3
## STREET LIGHTING SERVICE*

Base Rate Per Lamp Per Year:

| Lamp Size | Bare Lamp With Reflector | Luminaire With Bracket Attachment to Wooden Pole |
|---|---|---|
| 100 Watt-Incandescent | $ 37.68 | $ |
| 150 Watt-Incandescent | 44.40 | |
| 200 Watt-Incandescent | 52.08 | 57.00 |
| 300 Watt-Incandescent | | 73.44 |
| 175 Watt-Mercury Vapor | | 54.72 |
| 400 Watt-Mercury Vapor | | 111.00 |

## SCHEDULE L
## LARGE POWER SERVICE*

Rates:

Demand Charge

| | |
|---|---|
| First 50 KW or less of Billing Demand | $200.00 |
| Over 50 KW of Billing Demand | 4.00 /KW |

Energy Charge

| | |
|---|---|
| First 50 KWH of Billing Demand | .06047 Per KWH |
| Next 100 KWH of Billing Demand | .04826 Per KWH |
| All Remaining KWH of Billing Demand | .04201 Per KWH |

Minimum Monthly Charge:

The minimum monthly charge shall be the highest one of the following charges as determined for the consumer in question:

1. The minimum monthly charge specified in the contract for service.
2. The demand charge.
3. A charge of $200.00.

## SCHEDULE P*

Rates:

Demand Charge

| | |
|---|---|
| First 500 KW or less of Billing Demand for | $2,000.00 Per Month |
| Over 500 KW of Billing Demand | 4.00 Per KW |

Energy Charge

| | | |
|---|---|---|
| First | 3,500 KWH | $.05577 Per KWH |
| Next | 6,500 KWH | .04608 Per KWH |
| Next | 140,000 KWH | .04119 Per KWH |
| Next | 200,000 KWH | .03821 Per KWH |
| Next | 400,000 KWH | .03725 Per KWH |
| Next | 550,000 KWH | .03601 Per KWH |
| Over | 1,300,000 KWH | .03428 Per KWH |

MINIMUM MONTHLY CHARGE

The minimum monthly charge shall be the highest one of the following charges as determined for the consumer in question:

1. The minimum monthly charge specified in the contract for service.

2. The demand charge.

3. A charge of $2,000.00.

## OUTDOOR LIGHTING -SECURITY LIGHTS*

Rate Per Light Per Month:

| | | |
|---|---|---|
| Mercury Vapor Lamp | 175 Watt | $5.17 Per Month |

*Fuel Adjustment Charge

The above rate may be increased 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 twelve month moving average of such losses.