COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE ELECTRONIC APPLICATION OF JACKSON PURCHASE	)	
ENERGY CORPORATION FOR A GENERAL ADJUSTMENT	)	Case No.
OF RATES PURSUANT TO STREAMLINED PROCEDURE PILOT	)	2019-00053
PROGRAM ESTABLISHED IN CASE NO. 2018-00407	)	

JACKSON PURCHASE ENERGY CORPORATION'S COMMENTS TO THE COMMISSION

Comes now Jackson Purchase Energy Corporation ("JPEC"), by counsel, and for its Comments in the above-styled matter respectfully states as follows:

I. INTRODUCTION

JPEC is proposing a modest, two percent (2%) increase in its base rates to enable it to continue to provide safe, adequate and efficient service at rates that are fair, just and reasonable. It is imperative that JPEC increase its base rates in order to achieve financial metrics which are customary in the industry and expected by JPEC's principal lender. Moreover, it is appropriate to allocate this proposed rate increase to JPEC's residential customer class, via an increase in the monthly customer charge, as demonstrated by the cost of service study ("COSS") filed in support of JPEC's Application. In light of the many cost savings initiatives undertaken by JPEC over the past decade, the proposed base rate increase is reasonable and should be approved under the Commission's streamlined rate case procedure.

II. COMMENTS

It has been over eleven years since JPEC last filed for a base rate adjustment. In fact, JPEC's last base rate adjustment went into effect on June 25, 2008. Except for periodic rate adjustments effective under fuel and environmental pass-throughs from its wholesale supplier, JPEC's rates have remained the same for the period. JPEC's residential rates have remained unchanged since February 1, 2014. JPEC has consistently tried to manage its costs and expenses in order to avoid increasing customer rates.

JPEC has undertaken several cost containment measures over the last decade, including the following:

- JPEC has taken advantage of low interest rates on its outstanding debt where available, including refinancing its RUS long-term debt with a net present value savings of $1.3 million;
- JPEC has paid careful attention to budgeting and has continuously cut unnecessary or duplicative costs;
- JPEC bargaining employees have, since the last base rate case, begun contributing ten percent (10%) to the cost of employee insurances;
- JPEC has reduced its headcount from 2016-2018, which has saved an estimated $1.0 million per year;
- JPEC has been able to keep its service contracts steady with either no price increases or, where necessary, minimal price increases;
- JPEC has extended the life of its rolling fleet from ten years to twelve years, which has resulted in an estimated capital savings of $0.5 million;
- JPEC has utilized available information to better manage its system peaks and reduce its purchased power (Conservation Voltage Reduction), which has resulted in an estimated savings of $0.2 million annually; and

- Advanced Metering Information ("AMI") with Power Line Carrier ("PLC") technology has been implemented with an estimated savings of meter reading expense of $1.9 million annually.

In spite of the fact that JPEC has made every effort to keep expenses and costs down, there have been increases in certain areas that have made a small rate increase necessary. Increases to depreciation expense, labor expense, material and some contractor costs are among the areas that have risen since the last rate case was filed. JPEC has been able to keep wages for employees at reasonable levels, however, small wage increases have occurred over the last decade. In addition to these expenses, JPEC has had to incur expenses in order to adapt to, and implement, many 21st Century technologies. Some of these technologies were not even in existence at the time of JPEC's last rate case. These upgrades were needed for JPEC to sufficiently provide safe, reliable and cost-effective electricity to its member-owners. For instance, JPEC – like other cooperative and investor-owned utilities – has made upgrades in certain areas such as fiber communication; IP based telephone, disaster recovery, cybersecurity and AMI technology. JPEC has made good faith efforts to implement the technological advances that will provide the greatest benefits to its member-owners at the least cost.

Despite the fact that expenses and costs have risen since the last rate case, JPEC is still only requesting a two percent (2%) increase. This increase is needed in order for JPEC to achieve a Times Interest Earned Ratio ("TIER") of 2.00 and an Operating Times Interest Earned Ratio ("OTIER") of 1.74. The TIER for the adjusted test year is only 1.43, well below the targeted TIER of 2.00. A TIER of 2.00 is needed to maintain JPEC's financial integrity and not slip into a situation causing its lenders to declare a default. As the Commission is aware, if a default is declared, this could result in immediate financial peril for JPEC. In determining the amount of additional revenue required to reach the 2.00 TIER, the difference between JPEC's net margins for the adjusted test year without reflecting a general adjustment to rates and JPEC's net margin requirement necessary to provide the 2.00 TIER was used. This provided a revenue deficiency of \$1,325,207.[1] The adjusted test year includes pro forma adjustments which remove revenues and expenses that are addressed in other rate mechanisms, such as the Fuel Adjustment Clause, and are ordinarily excluded from rates, or are non-recurring on a prospective basis. The pro forma adjustments also include the exclusion of items directed by the Commission in Case No. 2018-00407. All these factors are expounded upon in greater detail in the testimony of John Wolfram, JPEC's rate consultant.

It also bears emphasis that JPEC has a primarily residential customer base. Nearly 59% of the total energy usage is from the residential class and nearly 62% of the total revenue is received from the residential class. Based on the COSS, the rates for the residential class are insufficient and should be increased. Additionally, the COSS prepared by JPEC supports a fixed monthly charge for the residential class of \$30.24, which is significantly higher than the current monthly residential customer charge of \$12.45. This factors into JPEC's decision on how to allocate the rate increase. JPEC is proposing to allocate the entire \$1,325,207 increase to the residential class. This would be a 3.2% increase to the residential class and a 2% overall increase. As part of the allocation determination, JPEC is proposing to increase the residential customer charge from \$12.45 to \$16.78, in order to recover a larger portion of the fixed charges. The energy charge per kWh would not change.

[1] Due to rate rounding, the proposed rates generated \$1,326,530, which varies by \$1,323 or 0.1% from the exact revenue deficiency for the test year.

The rates proposed by JPEC in this case will not eliminate all inter-class subsidization. However, it will begin the reduction of such subsidization and is consistent with the ratemaking principle of gradualism.

III. CONCLUSION

Because of JPEC's efforts to keep its costs and expenses low, the cooperative's member-owners have benefited for more than a decade without a base rate increase. Even though it has been more than eleven years since the last rate case was filed by JPEC, a modest 2% increase is all that is being requested by JPEC in this proceeding. As stated above, JPEC primarily serves residential customers. After the COSS revealed that the residential class was the class receiving the highest inter-class subsidy, JPEC determined that allocating the entire increase to the residential class was the most appropriate way to achieve the increase. Allocating this increase to the residential class removes approximately one quarter of the subsidy amount and is consistent with the rate-making concept of gradualism. Therefore, JPEC maintains its position that a 2% increase is needed to achieve a TIER of 2.00 and that allocating the full increase to the customer class is the most fair and reasonable method. JPEC will continue to evaluate other cost saving measures and implement new technological advances that provide the most benefit to owner-members at the reasonable least cost.

Dated this 20th day of May, 2019.

Respectfully submitted,

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CERTIFICATE OF SERVICE

In accordance with 807 KAR 5:001, Section 8, this is to certify that the electronically filed documents (including this "Read 1st" letter and the enclosures) are true and accurate copies of the same documents being filed in paper medium; that the electronic filing has been transmitted to the Commission on May 20, 2019; that there are currently no parties in this proceeding that the Commission has excused from participation by electronic means; that the original of the documents transmitted electronically will be filed with the Commission in paper medium within two business days from the date of the electronic filing; and that attached to the top of the paper medium submission is a copy in paper medium of the electronic notification from the Commission confirming receipt of electronic submission.

Counsel for Jackson Purchase Energy Corporation