

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF JACKSON)	CASE NO.
PURCHASE ENERGY CORPORATION FOR A)	2019-00053
GENERAL ADJUSTMENT IN EXISTING RATES)	

ATTORNEY GENERAL’S SUPPLEMENTAL COMMENTS

Comes now the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention (“Attorney General”), and hereby tenders his supplemental comments to the Kentucky Public Service Commission (“Commission”) in the above-styled proceeding.

STATEMENT OF THE CASE

Jackson Purchase Energy Corporation (hereinafter “JPEC” or the “Cooperative”) is a non-profit electric cooperative corporation organized under KRS Chapter 279, and which provides distribution electric service to members/customers in Ballard, Carlisle, Graves, Livingston, McCracken, and Marshall counties.

JPEC filed its application for a general adjustment in rates pursuant to the streamlined procedure pilot program established in Case No. 2018-00407 on March 29, 2019.¹ The Attorney General submitted his electronic service response on April 5, 2019 to maintain his intervention status under the streamlined rate process. One round of discovery was conducted, with JPEC providing responses to the Attorney General’s and Staff’s data requests on May 13, 2019, along with a petition for confidentiality for some of its responses. Following the submission of these

¹ Application, *Electronic Application Of Jackson Purchase Energy Corporation For A General Adjustment In Existing Rates*, Case No. 2019-00053, at 4 (Ky. Commission March 29, 2019).

comments, the case will stand submitted for a decision on the record on May 21, 2019.

ARGUMENT

I. The Length Of Time Since JPEC Has Received A Rate Increase Should Have Compelled It To File A Traditional Base Rate Case

As the Attorney General pointed out in his Initial Comments, it has been eleven years since JPEC has been awarded a general base rate increase in Case No. 2007-00116.² Various rate adjustments from its wholesale energy supplier, Big Rivers, were passed through by JPEC, but residential rates have not changed since February 1, 2014.³ Here, JPEC proposes a 35% increase to the residential customer charge,⁴ though the overall increase amounts to only a 2% increase in annual revenues.⁵ JPEC states that the residential class accounts for 85% of its overall customer base.⁶ JPEC also provided testimony which stated that since the Cooperative has declined to seek a rate increase for eleven years, and since JPEC faces no “impending financial-metric defaults”—while cost-drivers have substantially increased—that these facts “should provide the Commission all of the comfort it needs that Jackson Purchase is an efficiently-run company.”⁷ JPEC made these arguments in the furtherance of allowing it to continue its filing in the streamlined rate case procedure. The Commission granted this request.

As the Attorney General originally argued, he cannot take these facts at face value when so many ratepayers stand to be affected by the proposed rate increase. The streamlined process for cooperatives is designed to facilitate incremental increases with enhanced communication among the utility, Commission Staff, and intervenors while reducing the barriers to filing and pursuing a

² Application, Direct Testimony of Greg Grissom, at 4.

³ *Id.*

⁴ Application, Exhibit 4.

⁵ Application, at 2.

⁶ Application, Direct Testimony of Jeffrey R. Williams, at 6.

⁷ *Id.*

traditional rate case. As such, the Attorney General maintains that the streamlined process should, in the future, be reserved for utilities with fewer years between rate cases than eleven. The sheer amount of changes to expenses and revenues, personnel, and technology in such a span of time dictates that a more comprehensive approach to granting any rate increase to such a utility is warranted. The Attorney General is not proposing a bright line rule, but rather a case by case consideration of these issues when determining whether to grant or deny acceptance under the streamlined rate process.

II. JPEC Should Be Required To Comply With Recent Commission Precedent On Pro Forma Adjustments To Its Operating Expenses

JPEC prospectively made certain pro forma adjustments to its operations for the test year in accordance with both current Commission practice and the procedure laid out in Case No. 2018-00407.⁸ Certain other expenses though, such as the operating expenses to reflect healthcare insurance premiums were not in line with current Commission precedent. As such, the Commission should adjust employee contributions for healthcare based on the national average for coverage type consistent with the Commission's recent orders.⁹ The Commission should also adjust any other operating expenses to conform to current Commission precedent.

Further, the Attorney General has some concern regarding increases to wages and salaries that JPEC has proposed, as presented in Schedule 1.12, and only briefly discussed in testimony.¹⁰ In response to Commission Staff, JPEC stated that the \$111,864 increase over test-year wages for the President and CEO, which resulted in total pro forma wages at 2,080 hours of \$289,736 “was necessary and appropriate to secure Mr. Grissom as Jackson Purchase’s President and Chief

⁸ Application, Direct Testimony of John Wolfram, at 9–10.

⁹ *Id.* at 15–16; Exhibit 35.

¹⁰ Application, Direct Testimony of Jeffrey R. Williams, at 9–10.

Executive Officer.”¹¹ Such a sudden, marked increase in executive compensation seems unorthodox for a nonprofit electric cooperative. Furthermore, JPEC identified other employees who have received or are expected to receive increases which, when considered in isolation or in concert with prior year increases, seem on their face to be exorbitant.¹² Without further explanation, and combined with the increase in executive compensation, the Attorney General is concerned that ratepayers are funding wage and salary increases at levels which may not be justified, especially given that the Cooperative is requesting a rate increase. Nevertheless, the Attorney General recommends that the Commission caution JPEC to keep such increases within the bounds of reason absent exceptional, well-justified circumstances.

III. JPEC’s Cost Of Service Study Allocation Is Improper

JPEC states in its Application that its proposal moves its rate structure toward “cost-based” rates without the full adoption of same, in the spirit of gradualism. JPEC claims this will partially address inter-class subsidization, which mostly benefits the residential class, while avoiding rate shock to residential customers.¹³ This rate design change, which moves residential customers one quarter of the way toward full “cost-based” rates, relies on the results of Mr. Wolfram’s cost of service study.¹⁴ This is despite the fact that the COSS improperly allocates the cost of poles on the basis of the number of customers, especially since the number of the poles does not correlate with JPEC’s customer count based on the provided zero-intercept study.¹⁵ When asked to explain the impact on class returns that would result if the accounts related to distribution plant in service—specifically poles, towers, fixtures, and line transformers—were allocated solely on demand, the

¹¹ JPEC Response to PSC 1-4; JPEC-RevReq-FILED.xlsx, Tab 1.12 Wages.

¹² See DR-AG_Item-42_nonbarganing_redacted.xlsx (NB1: 2014—4.0%, 2015—6.1%, 2016—4.2%, 2017—40.1%; NB 32: 2015—5.6%, 2016—4.2%, 2017—20.4%, 2018—31.7%)

¹³ Wolfram Direct Testimony, page 26–27.

¹⁴ JPEC Response to AG 1-39.

¹⁵ JPEC Response to AG 1-15.

utility simply stated that such a calculation would be inconsistent with the NARUC electric cost allocation manual, and provided no further attempt at an answer.¹⁶ Because of this, JPEC has not provided a compelling reason for pole cost allocation to be calculated according to the more subjective and blunt minimum system method. Additionally, given the utility's responses, or lack thereof, there was no evidence to counter JPEC's proposals that borrow from the COSS and are used for rate design purposes, such as the inclusion of poles and wires in the calculation of the customer charge. JPEC's nonanswer response has denied the Attorney General the opportunity to provide contrary evidence to that which was relied upon by JPEC in its Application.

Finally, the Attorney General notes by way of simple contrast that JPEC is requesting to increase its customer charge to \$16.78, which is an approximate 35% increase on its current \$12.45 charge, while the only other utility with an application currently pending under the streamlined rate case procedure, Jackson Energy Cooperative Corporation, is requesting to increase its customer charge *from* \$16.44 *to* \$24.00. Such an increase to the fixed charge component of the rate compounds the burden on the residential customers on its system, and while a customer with average usage may not see an increase in their bill, anyone using less than the system average will.¹⁷ Regardless, as discussed earlier, all customers will see an increased barrier to energy conservation and customers who receive bill assistance will receive \$4 less each month to defray usage—money which will now bypass customers and instead go directly into the utility's coffers.

CONCLUSION

The Commission has often acknowledged its long history of reliance on the principle of gradualism in ratemaking in order to mitigate the financial impact of individual rate increases on

¹⁶ JPEC Response to AG 1-16, 1-17.

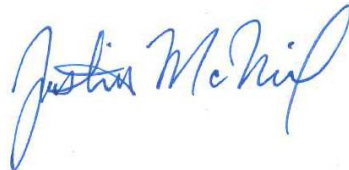
¹⁷ JPEC Response to AG 1-43.

customers and Kentucky families.¹⁸ In the event that the Commission decides to approve any or all of JPEC's proposals, the Attorney General asks that the Commission continue to follow that precedent here and to appropriately consider affordability.

WHEREFORE, the Attorney General requests that the Commission, based upon the evidentiary record, set fair, just, and reasonable rates for the customers of Jackson Purchase Energy Corporation.

Respectfully submitted,

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¹⁸ Case No. 2014-00396, *In the Matter of Application of Kentucky Power Company for: (1) A General Adjustment of its Rates for Electric Service; (2) An Order Approving its 2014 Environmental Compliance Plan; (2) An Order Approving its Tariffs and Riders; and (4) An Order Granting All Other Required Approvals and Relief*, Order (Ky. PSC June 22, 2014) (“the Commission has long employed the principle of gradualism”); *See also*, Case No. 2000-080, *In the Matter of: The Application of Louisville Gas & Electric Company to Adjust its Gas Rates and to Increase its Charges for Disconnecting Service, Reconnecting Service and Returned Checks*, Order (Ky. PSC September 27, 2000) (“the Commission is adhering to the rate-making concepts of continuity and gradualism in order to lessen the impact of these increases on the customers that incur these charges.”).