COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION FOR AN ADJUSTMENT OF ELECTRIC RATES	)))	CASE NO. 2012-00426

ORDER

On December 26, 2012, Grayson Rural Electric Cooperative Corporation ("Grayson") submitted an application requesting approval to increase its rates for retail electric service by $2,063,798, a 7.9 percent increase over its normalized revenues.[1] A review of the application revealed that it did not meet the minimum filing requirements set forth in 807 KAR 5:001 Section 10(1)(b)(7), 807 KAR 5:001 Section 10(1)(b)(8), 807 KAR 5:001 Section 10(3)(a), 807 KAR 5:001 Section 10(3)(b), 807 KAR 5:001 Section 10(3)(c), and 807 KAR 5:001 Section 10(4); therefore, a notice of filing deficiencies was issued. On January 8, 2013 and January 18, 2013, Grayson filed information intended to cure the deficiencies; however, the information was insufficient and two additional deficiency letters were issued. On January 29, 2013, Grayson filed the information needed to cure the deficiencies and the application was accepted as filed on that date.

KRS 278.180(1) requires 30 days' notice of a change in rates. Accordingly, the Commission advised Grayson that based on the January 29, 2013 filed date the earliest the proposed rates could become effective was February 28, 2013. Finding that an investigation would be necessary to determine the reasonableness of Grayson's

[1] Grayson's most recent general rate case was Case No. 2008-00254, Application of Grayson Rural Electric Corporation for an Adjustment in Rates and an Increase in Retail Electric Rates Equal to Increase in Wholesale Power Costs (Ky. PSC June 3, 2009).

proposed increase, the Commission suspended the rates for five months, up to and including July 27, 2013, pursuant to KRS 278.190(2).

BACKGROUND

Grayson is a consumer-owned rural electric cooperative organized pursuant to KRS Chapter 279. It is engaged in the sale of electric energy to approximately 15,400 member customers in Carter, Elliott, Greenup, Lawrence, Lewis, and Rowan counties in Kentucky. It is one of 16 member distribution cooperatives that own and receive wholesale power from East Kentucky Power Cooperative, Inc. ("EKPC").

A procedural order was issued February 13, 2013 that provided for discovery, intervenor testimony, and rebuttal testimony. There were no intervenors in this matter. Grayson responded to three requests for information from Commission Staff. The Commission held a public hearing on the proposed rate adjustment on June 18, 2013. No members of the public attended the hearing. All information requested at the public hearing was filed by Grayson on June 28, 2013 and the case now stands submitted for a decision.

TEST PERIOD

Grayson proposed the 12-month period ending May 31, 2012 as the test period to determine the reasonableness of its proposed rates. The Commission finds the use of this test period to be reasonable. In using a historic test period, the Commission has given full consideration to appropriate known and measurable changes.

VALUATION

Rate Base

Grayson proposed a net investment rate base of $51,947,528 based on test-year-end plant in service and construction work in progress; the 13-month average balances for materials and supplies and prepayments, plus a cash working capital allowance, minus the adjusted accumulated depreciation balance; and the test-year-end level of customer advances for construction.[2]

The Commission concurs with Grayson's proposed rate base with the exceptions that (1) working capital has been adjusted to reflect the pro forma adjustments to operation and maintenance expenses and (2) accumulated depreciation has been reduced to reflect the adjustments described herein. With these adjustments, Grayson's net investment rate base for rate-making purposes is as follows:

Utility Plant in Service	$ 63,952,956
Construction In Progress	601,906
Total Utility Plant	$ 64,554,862
ADD:	
Materials and Supplies	$ 274,385
Prepayments	163,848
Working Capital	903,535
Subtotal	$ 1,341,768
DEDUCT:	
Accumulated Depreciation	$ 13,762,086
Customer Advances for Construction	145,715
Subtotal	$ 13,907,801
NET INVESTMENT RATE BASE	$ 51,988,829

[2] Application, Exhibit K, p. 2 of 7.

Capitalization and Capital Structure

The Commission finds that Grayson's capitalization at test-year-end for rate-making purposes was $50,111,808[3] and consisted of $9,822,053 in equity[4] and $40,229,755 in long-term debt. Using this capital structure, Grayson's year-end equity to total capitalization ratio was 20 percent.

REVENUES AND EXPENSES

Grayson proposed 14 adjustments to revenues and expenses to reflect current and expected operating conditions. The Commission finds that 11 of the adjustments proposed by Grayson are reasonable and should be accepted. Those adjustments are shown in the following table:

Descriptions	Adjustments
Payroll – Salaries & Wages	$ 55,586
Payroll Taxes	5,899
Normalize Interest on Long and Short Term Debt	20,746
Financial Accounting Standard 106 Costs	44,552
Retirement and Security Plan Costs	29,257
Professional Services	(34,852)
Donations	(12,065)
Directors Expenses	(83,704)
Generation and Transmission Credits	(1,357,241)
Normalize Purchased Power Costs	(2,086,626)
Normalize Base Rates	32,442

The Commission has modified the remaining proposed adjustments and made further adjustments to the test year expenses as discussed herein.

[3] *Id.*, p. 7 of 7.

[4] Generation & Transmission Capital Credits ("G&T Capital Credits") are typically excluded by the Commission in calculating a distribution cooperative's equity and capital structure. At test-year end, Grayson had a balance of $7,982,053 in G&T Capital Credits.

Maintenance of Overhead Lines Expense

Grayson stated that during 2011 it realized a reduction in its expenses of approximately $26,000 for chemicals used in Right-of-Way ("ROW") maintenance.[5] Because most of the savings occurred in the 12-month period ending before the May 31, 2012 test year end,[6] an adjustment has been made to decrease maintenance expenses by $15,080. This adjustment reflects the cost savings related to chemicals for ROW maintenance not reflected in the test year.

Miscellaneous Expense

An adjustment of $219 is made to Miscellaneous Expenses to eliminate a donation expense[7] which is not allowed for ratemaking purposes.

Rate Case Expense

The allowable Rate Case Expense was decreased by $5,000 to reflect the correct amount for the case. On page 3 of Exhibit S of the application, and in response Items 26 of Staff's Second Request and Item 11 of Commission Staff's Post Hearing Request for Information, Grayson requested $25,000 per year for three years to amortize the rate case expense. However, on revised Exhibit S, the amount of annual rate case expense was listed as $30,000. Therefore, a $5,000 reduction has been made to reflect the correct amount as was requested.

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[5] Response to Item 37 of Commission Staff's Second Request for Information, dated Mar. 18, 2013 ("Staff's Second Request").

[6] June 18, 2012, Hearing, Video Transcript ("Video Transcript") at 14:23.

[7] Response to Item 34 of Staff's Second Request.

Parking Lot Resurfacing

The Commission has disallowed $49,025 of expense for Grayson's resurfacing of a parking lot as a non-recurring expense. However, for ratemaking purposes, the Commission will allow the expenditure to be amortized over a five year period with an annual amortization of $9,805.

Depreciation and Amortization

Grayson proposed to increase its test year depreciation and amortization expense by $38,090 resulting from normalization of depreciation expense. However, there were two errors in Grayson's calculation of its test year depreciation expense. Accounts 371 and 394 did not have the correct depreciation rates that were approved by the Commission in Case No. 2008-00254. Applying the correct depreciation rates reduces the depreciation expense on these two accounts by $82,221. Therefore, the result is a net reduction in depreciation expense for the test year of $44,131. In addition, accumulated depreciation was adjusted to reflect the change in depreciation expense and the rate base was adjusted accordingly.

PSC Assessment Fee

Grayson did not propose an adjustment to its PSC Assessment Fee to reflect its normalization of revenues and purchased power expense or the impact of its proposed revenue increase. The Commission has determined that an adjustment to the PSC Assessment Fee to reflect the normalization of revenue and purchased power expense is appropriate. Using the 2013–2014 assessment rate produces a $2,276 increase in the PSC Assessment Fee for the test year. The Commission has also determined that an adjustment to the PSC Assessment Fee, based on the revenue increase being granted herein, should be recognized. This calculation results in an increase in the PSC Assessment Fee of $3,385, resulting in a total increase of $5,661.

Pro Forma Adjustments Summary

The effect of the pro forma adjustments on Grayson's net income is as follows:

	Actual Test Period	Pro Forma Adjustments	Adjusted Test Period
Operating Revenues	$29,299,995	$(2,213,376)	$27,086,619
Operating Expenses	29,067,793	(2,151,131)	26,916,662
Net Operating Income	232,202	(62,245)	169,957
Interest on Long-Term Debt	1,030,994	56,437	1,087,431
Interest Expense-Other	111,711	(35,691)	76,020
Other Deductions	12,065	(12,065)	0
NET INCOME	$ (922,568)	$ (70,926)	$ (993,494)

REVENUE REQUIREMENTS

Grayson's actual test year rate of return on net investment rate base was .52 percent.[8] Its test year Time Interest Earned Ratio ("TIER"), excluding G&T Capital Credits, was .11[9] and its equity ratio was 20 percent.

Grayson has received notification from the Rural Utilities Service ("RUS") that it failed to meet its operating TIER requirement of 1.1 for calendar years 2011 and 2012 as required by its mortgage covenant. Therefore, it is technically in default with RUS. Grayson's financial position has deteriorated since 2010 due to a decline in customers and energy sales[10] and increasing costs. Grayson has attempted to rectify this situation

[8] Application, Exhibit K, page 1.

[9] Response to Item 2 of Staff's Second Request, page 2.

[10] Response to Item 14 of Staff's Second Request.

by instituting cost-cutting measures, as well as by filing the current general rate case. Grayson has apprised the RUS of the status of its current rate case.

Grayson is behind in paying capital credits to estates. Grayson stated at the hearing that capital credits for estates have been paid only through early 2012. In the test year, capital credits paid to estates totaled $106,964.[11] With the proposed increase in this case, Grayson intends to bring payment of capital credits to estates current.

Grayson's request for a rate increase in this case is based on a 2.0 TIER, which the Commission finds is reasonable. Based on the pro forma adjustments found reasonable herein, the Commission has determined that, in order to produce a TIER of 2.0, Grayson will require an increase in revenues of $1,933,503. This should produce net operating income of $2,174,862, resulting in a 4.18 percent return on Grayson's net investment rate base found reasonable herein.

PRICING AND TARIFF ISSUES

Cost of Service

Grayson filed a fully allocated cost-of-service study ("COSS") for the purpose of determining the cost to serve each customer class and the amount of revenue to be allocated to each customer class. Grayson filed a revised COSS in response to a Commission Staff Request for Information. Having reviewed Grayson's COSS as revised through discovery, the Commission finds it to be acceptable for use as a guide in allocating the revenue increase granted herein.

[11] Response to Item 5 of Commission Staff's Post Hearing Request for Information, dated June 28, 2013 ("Staff's Post Hearing Request").

Revenue Allocation and Rate Design

Grayson's revised Schedule J contained in Applicant's Responses to Commission Staff's Post Hearing Request for Information ("Applicant's Post Hearing Responses") reflected allocations of the proposed revenue increase to all classes except Large Industrial Service, Temporary Service, Net Metering, and Envirowatts. The allocation of the proposed increase to the customer classes and the proposed increases in customer charges for all rate classes for the most part reflect the results of Grayson's revised COSS and generally maintains the current percentage of revenue responsibility among the classes. Some revenue allocations shifted slightly as a result of the revised COSS, most notably a 3.1 percent revenue increase for the Large Power class that Grayson had not initially proposed.

Grayson's revised COSS shows that the current customer charges for several rate classes are insufficient to recover the customer-related costs of serving those classes. Within each class, Grayson proposed to increase customer charges as follows:

Rate Class	Current Rate	Proposed Rate
Farm and Home, Off-Peak Marketing, Residential Inclining Block	$10.35	$15.00
Residential Time of Day	$15.52	$19.00
Small Commercial	$25.87	$27.50
General Service	$20.69	$22.50

With respect to the proposed increases in Grayson's customer charges, the Commission concludes that, for an electric cooperative that is strictly a distribution utility, there is merit to the arguments that there is need for a means to guard against the revenue erosion that often occurs due to the decrease in sales volumes that accompanies poor regional economics, changes in weather patterns, and the implementation or expansion of DSM and energy-efficiency programs. We further conclude, as we did in recent cases involving Owen Electric Cooperative Corporation[12] ("Owen"), Big Sandy Rural Electric Cooperative Corporation[13] (Big Sandy"), and Fleming-Mason Energy Cooperative, Inc.[14] ("Fleming Mason") that, in conjunction with an expansion in Grayson's DSM programs, the potential reduction in sales volumes provides strong reasons for increasing customer charges in order to improve the utility's recovery of its fixed costs, which is supported by the COSS.

The approved increase of $1,933,503 results in an overall increase of 7.4 percent in base rate revenue. Given the results of Grayson's COSS, the Commission finds it reasonable to allocate the revenue increase to each rate class as set out in Applicant's Post Hearing Responses. The Commission further finds that the customer charges as proposed by Grayson, including the Residential Time of Day Customer charge of $19 as set out in the Post Hearing Response, should be approved for the reasons set forth above, and that the remainder of the increase found reasonable herein should be allocated to the energy charges. With regard to the Large Power class, the Commission finds that the allocation of an increase proportional to the increase allowed herein is reasonable, and that the increase should be allocated to the energy charge. Increases

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[12] Case No. 2011-00037, Application of Owen Electric Cooperative Corporation for an Order Authorizing a Change in Rate Design for Its Residential and Small Commercial Rate Classes, and the Proffering of Several Optional Rate Designs for the Residential Classes (Ky. PSC Feb. 29, 2012).

[13] Case No. 2012-00030, Application of Big Sandy Rural Electric Cooperative Corporation for an Adjustment of Rates (Ky. PSC Oct. 31, 2012).

[14] Case No. 2012-00369, Application of Fleming-Mason Energy Cooperative, Inc. for an Order Authorizing a Change in Rate Design for Its Residential Rate Class and the Offering of Several Optional Rate Designs for the Residential Rate Class (Ky. PSC July 2, 2013).

to rate schedules on which no customers are served should be proportional to the increase in revenues approved herein in comparison to the original increase proposed for each rate.

Tariff Changes

In its application, Grayson proposed a Prepay Metering Program tariff. The proposed tariff is a voluntary option to be made available to Grayson's Farm and Home and General Service rate classes, excluding accounts on levelized or budget billing, auto draft, net metering, three-phase accounts, and accounts with greater than 200 amp service. Grayson further requested, for its Prepay Program only, a deviation from 807 KAR 5:006, Section 15,[15] which permits a utility to terminate service due to non-payment of bills only after the utility has provided the customer an advance termination notice.

To enroll in the proposed Prepay Metering Program, a customer must complete and sign a Prepay Electric Service Agreement [16] ("Agreement") with a term of one year, which sets out the terms and conditions of the program. To participate, a customer must have the capability to receive communications either by telephone or electronically. The Agreement states that it will be the customer's responsibility to manage his or her own communication devices, including any change in the customer's contact information.

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[15] Grayson made its request pursuant to 807 KAR 5:006, Section 14. The Commission has promulgated revisions to 807 KAR 5:006 effective January 4, 2013, and the section of the Commission's general rules relating to termination is now found at Section 15.

[16] Application, proposed Prepay Metering Program tariff.

Pursuant to the proposed Prepay Program tariff, at the time the prepay account is activated, an initial payment must be made with a minimum of $100. Participants can then apply funds to their accounts in any amount, and as many times per month as they choose.

Under the terms of the proposed Prepay Program tariff, the prepay account would not be subject to deposits, late fees, or disconnect or reconnect fees, but would still be subject to the service fee for returned checks. In its response to a Staff request for information, Grayson submitted a revised tariff sheet to include the specific reference to Section 45, Sheet 38, which sets out its $25.00 Returned Check Charge.[17] Customers having a deposit on their current accounts will have the deposit credited toward any remaining balance on an existing post-pay account before any funds are transferred to the prepay account. If a member switching from a post-pay to a prepay account is unable to pay an outstanding account balance in full, he or she will be offered a payment plan in which future purchases will be split 70/30 until the old debt is retired, with 70 percent of the payments applied to new purchases and 30 percent applied to retirement of the previous balance.

Prepay accounts will be billed electronically at least once per day and will then show the remaining balance in the account. The proposed prepay program fee and customer charge would be prorated and deducted from the account daily. When the amount of funds remaining in a prepay account reaches a balance of $25, an automated message will be sent to the customer.

Grayson stated that there are several benefits associated with its proposed Prepay Program, including increased customer satisfaction due to additional choice,

[17] Response to Item 10.g. of Staff's Second Request.

lack of a deposit requirement, and increased conservation. Grayson indicated that studies show the prepay programs reduce energy consumption up to 12 percent, reducing the carbon footprint and providing support to Grayson's DSM initiatives. Grayson further alluded to an expected decrease in expenses by reducing costs associated with reconnect and disconnect trips, write-offs and delinquent debt.

Grayson's Prepay Program would be implemented by means of its Customer Information System ("CIS") and its Automated Meter Infrastructure ("AMI") system, with a seamless interface allowing participating customers to make payments through most methods used by post-pay members and listed on Grayson's Web site.

Grayson proposes a monthly program fee of $10.00, which is calculated to recover software and hardware equipment cost, installation cost, annual depreciation, interest, O&M expenses, software support, communication fees, and transactions fees. Grayson stated that it followed a methodology for determining the prepay program costs similar to that used by Jackson Energy Cooperative Corporation and Blue Grass Energy in calculating their monthly program fees approved by the Commission.

OTHER ISSUES

Capital Credits for Estates

The Commission is concerned about the timeliness of Grayson's payment of capital credits to estates. While Grayson has attempted to become current with payment of such credits, it has yet to do so. The Commission recommends that Grayson become current and stay current on payments of capital credits to estates.

Payroll and Payroll Tax Expenses

Since 2008, Grayson's wage and salary expense has increased approximately 18.8 percent, an average 3.76 percent per year.[18] This increase has occurred even as Grayson's financial condition has deteriorated and while Grayson has failed to meet the required TIER in its RUS mortgage covenant for 2011 and 2012. Some of the other cooperatives who have experienced financial difficulty since 2008 have opted either to reduce or eliminate wage and salary increases until such time as the financial condition of the cooperative improves. The Commission is of the opinion that Grayson has not been prudent in awarding wage and salary increases during a time of difficult financial circumstances. The amount and timing of Grayson's wage and salary increases, in addition to other factors discussed herein, have eroded Grayson's TIER, debt-service coverage ratios, and equity position. During poor economic conditions, management and the Board of Directors must exercise sound judgment in making financial decisions to avoid the type of financial situation Grayson finds itself in. The Commission strongly recommends that Grayson improve its financial condition before consideration of further wage and salary increases for its employees.

Directors' Fees and Expenses

Grayson recorded expenses of $153,535 for directors' fees and expenses in the test year and $152,000 in the 12 months immediately preceding the test year. In comparison with similar-sized distribution cooperatives, the magnitude of Grayson's directors' fees and expenses, and that of the amount that is not allowable for ratemaking purposes, is a matter of concern for the Commission. The Commission also notes that after initial notification from the RUS in early 2012 that it did not meet its TIER

[18] Application, Exhibits 1 and 2.

requirement for 2011, Grayson opted to reduce operating expenses rather than other costs, such as directors' fees and expenses, to address its deteriorating financial condition. The Commission is of the opinion that Grayson should evaluate its priorities when making decisions to reduce discretionary spending in order to minimize the potential for both negative financial impacts and negative operational impacts.

Timing of General Rate Case Filing

In testimony at the hearing, Grayson stated that it became aware of its deteriorating financial position in early 2010.[19] However, the current general rate case was not filed until late December 2012, more than two years after recognizing the problem. In the interim, Grayson received a letter from RUS on March 30, 2012 advising that it had failed to meet its required TIER from its mortgage covenant for calendar year 2011. Grayson responded to RUS with a letter that outlined several cost-saving measures that were being implemented to improve its financial condition. However, these measures proved to be insufficient, resulting in Grayson's failing to meet its TIER requirement for calendar year 2012.[20] The Commission is concerned that Grayson did not address this situation with more urgency. Grayson's financial condition has been compromised and its continued ability to provide adequate service to its customers has been put at risk of being compromised because the Board of Directors and management did not respond to the situation in a timely manner. The Commission directs Grayson to be more proactive in addressing such problems in the future and to

[19] June 18, 2012, Hearing, Video Transcript ("Video Transcript") at 10:28:32.

[20] Failing to meet its TIER requirement has resulted in Grayson's being in technical default on its mortgage with RUS.

apprise the Commission of all communication with RUS so that the Commission may be informed of the status and anticipated resolution of Grayson's financial situation.

Controlling and Reporting of Cost Information

In response to Items 29 of Staff's Second Request and Item 14 of Staff's Third Request for Information, Grayson addressed the reason(s) why it had the highest Total Operation and Maintenance Costs Per Customer for 2011 among EKPC's distribution cooperatives. In part, Grayson stated that it was reporting information to the Kentucky Association of Electric Cooperatives (KAEC") on a different basis than other cooperatives. Grayson must ensure that the information it reports to KAEC, as well as any other institutions, is correct and consistent with that being reported by other cooperatives.

Grayson should continue cost-cutting measures in order to provide customers with reliable service at the lowest possible cost. According to the Energy Information Administration, Grayson ranked 57 out of 58 reporting electric utilities in Kentucky as having the highest average cost of electricity in 2011 for residential customers.[21] This distinction, along with Grayson's increase in the case at hand, confirms that it is one of the highest-cost residential electric providers in Kentucky. Grayson should endeavor to identify and implement all cost-savings measures possible, as well as to exercise prudence in its financial affairs in order to contain costs and improve its financial condition.

[21] http://www.eia.gov/electricity/data.cfm#sales

Demand-Side Management

Regarding Grayson's rate design changes, the Commission finds that, for an electric cooperative that is strictly a distribution utility, there is merit to guarding against the revenue erosion that often occurs due to the decrease in sales volumes that accompanies poor regional economics and the implementation or expansion of DSM and energy-efficiency programs. We further find, as in the aforementioned cases with Owen, Big Sandy, and Fleming-Mason that, in conjunction with an expansion in Grayson's DSM programs, the potential reduction in sales volumes provides strong reasons for increasing customer charges in order to improve the utility's recovery of its fixed costs, which is supported by the COSS.

Grayson has stated that it currently offers a number of programs to reduce energy inefficiencies and is working with EKPC in expanding and developing new DSM programs.[22] In addition, Grayson has a case pending at the Commission currently regarding the Kentucky Energy Retrofit Rider.[23] The Commission believes that energy conservation, energy efficiency, and demand-side management ("DSM") will become increasingly important for Kentucky. Governor Steven L. Beshear has identified a road map to energy independence for Kentucky in *Intelligent Energy Choices for Kentucky's Future,* November, 2008. That document states that energy efficiency should offset at

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[22] Responses to Item 49 of Commission Staff's First Request for Information, dated Feb. 18, 2013; Items 14 and 40 of Staff's Second Request; Item 9 of Commission Staff's Third Request for Information, dated Apr. 4, 2013; Item 12 of Staff's Post Hearing Request; and the Video Transcript beginning at 10:11:17.

[23] Case No. 2012-00484, Joint Application of Big Sandy Rural Electric Cooperative, Corp., Fleming-Mason Energy Cooperative, Inc., Grayson Rural Electric Cooperative Corp., for an Order Approving KY Energy Retrofit Rider Permanent Tariff, filed Nov. 2, 2012.

least 18 percent of Kentucky's projected 2025 energy demand.[24] In addition, the Commission has stated its support for eliminating impediments to the consideration and adoption by utilities of cost-effective DSM strategies in its July 1, 2008 Report to the Kentucky General Assembly.[25]

In Case No. 2010-00238,[26] a settlement agreement was reached wherein EKPC agreed to initiate a collaborative to evaluate and assess its energy diversification portfolio to expand deployment of renewable energy and DSM programs in conjunction with its distribution cooperatives and other stakeholders. As stated earlier, Grayson asserts that it currently offers a number of programs to reduce energy inefficiencies and that it actively works with the EKPC Steering Committee in developing new programs as well as in expanding and enhancing current programs. The Commission encourages Grayson to continue to work with EKPC and other stakeholders in the collaborative to identify opportunities for new or expanded cost-effective DSM programs and encourages Grayson and all other electric energy providers to make a greater effort to offer cost-effective DSM and other energy-efficiency programs. With the rate design changes approved herein, the Commission has provided Grayson the opportunity to widen its DSM and energy-efficiency offerings and to vigorously pursue those plans.

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[24] *Intelligent Energy Choices for Kentucky's Future, Kentucky's 7-Point Strategy for Energy Independence*, Governor Steven L. Beshear, November 2008, p. 22.

[25] *Electric Utility Regulation and Energy Policy in Kentucky, A Report to the Kentucky General Assembly Prepared Pursuant to Section 50 of the 2007 Energy Act*, Kentucky Public Service Commission, July 1, 2008, p. 3.

[26] Case No. 2010-00238, An Investigation of East Kentucky Power Cooperative, Inc.'s Need for the Smith 1 Generating Facility (Ky. PSC Feb. 28, 2011). The members of the Collaborative are EKPC, its 16 owner-member cooperatives, the Sierra Club, the Kentucky Environmental Foundation, Kentuckians for the Commonwealth, and the Office of the Attorney General, by and through his Office of Rate Intervention.

The Commission is very interested in the impact of Grayson's DSM and energy-efficiency programs, as well as in the impact of the changes in rate designs and the optional rate offerings that we are authorizing herein. Grayson will therefore be required to file annual reports which contain the status of each DSM and energy-efficiency program and certain information with regard to its members' responses to the rate changes approved herein.

SUMMARY

The Commission, after consideration of the evidence of record and being otherwise sufficiently advised, finds that:

1. The rates set forth in Appendix A to this Order are the fair, just, and reasonable rates for Grayson to charge for service rendered on and after the date of this Order.

2. The rate of return and TIER granted herein are fair, just, and reasonable and will provide for Grayson's financial obligations.

3. The rates proposed by Grayson would produce revenue in excess of that found reasonable herein and should be denied.

4. Grayson is directed to apprise the Commission within ten days of all communication with RUS in order for it to be informed of the resolution of its financial situation.

5. Grayson's proposed permanent Prepay Metering Program should be approved.

6. Grayson should track data and maintain records that, at a minimum, include the type of information identified in Appendix B to this Order for the Prepay

Metering Program. Grayson should provide that information to the Commission in a report filed along with its Annual Report.

7. Commencing in 2014, at the same time Grayson files its annual financial report with the Commission, Grayson should file annual reports with the Commission which contain the status of each DSM and energy-efficiency program and which contain the following information with regard to the members' responses to the rate changes approved herein:

a. The number of customers and sales volumes for all residential rate schedules and the number of customers and sales volumes for the large industrial customer schedule;

b. A recap of Grayson's customer-awareness and education efforts; the number of individual inquiries by members about the optional rate schedules; and the number of contacts by customer service representatives concerning these same rate schedules with members who make contact with Grayson either in person or by telephone;

c. Budgets, actual expenditures, number of participants, and the estimated impact on sales of each DSM and energy-efficiency program approved; and

d. The estimated implementation date for any program planned but not yet implemented as of the date of that report, and explanations for why any such planned programs have not yet been implemented. Subsequent-year reports should contain information further describing Grayson's efforts to implement the planned programs.

8. Upon request from Grayson, Commission Staff should conduct a technical conference to address any questions concerning the requirements set out in this Order.

IT IS THEREFORE ORDERED that:

1. Grayson's proposed energy charges are denied and all other proposed rates and tariffs are approved, including the $19 Residential Time of Day Customer Charge as revised in the post hearing data response, for service rendered on or after the date of this Order.

2. The rates in Appendix A to this Order are approved for service rendered by Grayson on and after the date of this Order.

3. Grayson shall apprise the Commission within ten days of all communication with RUS in order for it to be informed of the resolution of its financial situation.

4. Commencing in 2014, at the same time Grayson files its annual financial report with the Commission, Grayson shall file five copies of its Prepay Metering Program annual reports with the Commission which contain the status of the program and the information as set out in Appendix B.

5. Commencing in 2014, at the same time Grayson files its annual financial report with the Commission, Grayson shall file five copies of its DSM annual reports with the Commission which contain the status of each DSM and energy-efficiency program and which contain the information as set out in Findings paragraph 7 above.

6. Upon request of Grayson, Commission Staff shall schedule a technical conference to address any questions concerning the requirements set out in this Order.

7. Within 20 days of entry of this Order, Grayson shall file with this Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets setting out the rates approved herein and reflecting the date of issue, the effective date, and that they were approved pursuant to this Order.

8. Any documents filed pursuant to ordering paragraph Nos. 3, 4, and 5 of this Order shall reference the number of this case and shall be retained in the utility's general correspondence file.

By the Commission

ENTERED
JUL 31 2013
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2012-00426 DATED JUL 31 2013

The following rates and charges are prescribed for the customers in the area served by Grayson Rural Electric Cooperative Corporation. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

SCHEDULE 1
DOMESTIC - FARM AND HOME SERVICE

Customer Charge per Month	$ 15.00
Energy Charge per kWh	$ .10910

SCHEDULE 2
COMMERCIAL AND SMALL POWER

Customer Charge per Month	$ 27.50
Energy Charge per kWh	$ .10696

SCHEDULE 3
OFF-PEAK MARKETING RATE

Customer Charge per Month	$ 15.00
On-Peak Energy Charge per kWh	$ .10938
Off-Peak Energy Charge per kWh	$ .06562

SCHEDULE 4
LARGE POWER

Customer Charge per Month	$ 63.02
Demand Charge per kW	$ 8.54
Energy Charge per kWh	$ .06220

SCHEDULE 5
STREET LIGHTING SERVICE

Rate per Light per Month – 7,000 Lumens	$ 10.68

SCHEDULE 6
OUTDOOR LIGHTING SERVICE-SECURITY LIGHTS

Rate per Light per Month as Follows:

Mercury Vapor 7,000 Lumens	$	10.34
Mercury Vapor 10,000 Lumens	$	13.02
Flood Lighting	$	18.98

SCHEDULE 7
ALL ELECTRIC SCHOOLS

Customer Charge per Month	$	31.04
Demand Charge per kW	$	6.48
Energy Charge per kWh	$	.07362

SCHEDULE 10
RESIDENTIAL TIME OF DAY

Customer Charge per Month	$	19.00
On-Peak Energy Charge per kWh	$	.20000
Off-Peak Energy Charge per kWh	$	.06225

SCHEDULE 11
SMALL COMMERCIAL TIME OF DAY

Customer Charge per Month	$	27.50
On-Peak Energy Charge per kWh	$	.20000
Off-Peak Energy Charge per kWh	$	.06225

SCHEDULE 12(b)
LARGE INDUSTRIAL SERVICE

Customer Charge per Month	$	1,131.19
Demand Charge per kW	$	10.50
Energy Charge per kWh	$	.04666

SCHEDULE 12(c)
LARGE INDUSTRIAL SERVICE

Customer Charge per Month	$	1,131.19
Demand Charge per kW	$	10.50
Energy Charge per kWh	$	.04567

SCHEDULE 13(b)
LARGE INDUSTRIAL SERVICE

Customer Charge per Month	$	1,131.19
Demand Charge per kW	$	10.50
Energy Charge per kWh	$	.04666

SCHEDULE 13(c)
LARGE INDUSTRIAL SERVICE

Customer Charge per Month	$	1,131.19
Demand Charge per kW	$	10.50
Energy Charge per kWh	$	.04567

SCHEDULE 14(b)
LARGE INDUSTRIAL SERVICE

Customer Charge per Month	$	1,136.37
Demand Charge per Kw of Contract Demand	$	7.23
Demand Charge per kW for Billing Demand In excess of Contract Demand	$	10.50
Energy Charge per kWh	$	.04666

SCHEDULE 14(c)
LARGE INDUSTRIAL SERVICE

Customer Charge per Month	$	1,131.19
Demand Charge per Kw of Contract Demand	$	7.23
Demand Charge per kW for Billing Demand In excess of Contract Demand	$	10.50
Energy Charge per kWh	$	.04567

SCHEDULE 15
RESIDENTIAL DEMAND AND ENERGY RATE

Customer Charge per Month	$	20.00
Demand Charge per kW	$	4.61
Energy Charge per kWh	$	.06800

SCHEDULE 16
SMALL COMMERCIAL DEMAND AND ENERGY RATE

Customer Charge per Month	$	27.50
Demand Charge per kW	$	6.10
Energy Charge per kWh	$	.06533

SCHEDULE 17
WATER PUMPING SERVICE

Customer Charge per Month	$	41.39
On-Peak Energy Charge per kWh	$	.134926
Off-Peak Energy Charge per kWh	$	.070000

SCHEDULE 18
GENERAL SERVICE RATE

Customer Charge per Month	$	22.50
Energy Charge per kWh	$	.13047

SCHEDULE 20
RESIDENTIAL INCLINING BLOCK RATE

Customer Charge per Month	$	15.00
Energy Charge per kWh		
First 300 kWh	$	.07432
301 – 500 kWh	$	.09006
All over 500 kWh	$	.13734

SCHEDULE 21
PREPAY METERING PROGRAM

Monthly Program Fee	$	10.00

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2012-00426 DATED JUL 3 1 2013

The information and data to be maintained by Grayson for the Prepay Program, shall, at minimum, address the following issues:

1. The number of participants over the course of the Prepay Program, disaggregated to show how many: (1) remained in the program from the time they enrolled; (2) were terminated from the program (and the reasons for such termination); and (3) voluntarily left the program (and the reasons for their leaving).

2. The number of participants whose enrollment resulted from having sought to resolve a past-due bill, an arrearage balance, prior service disconnection, or some other service or payment problem.

3. The number of participants, by month, who permitted their purchased energy to run down to a negative balance, causing their service to be terminated.

4. The number of participants who permitted their purchased energy to run down to a negative balance multiple times, with the numbers disaggregated to show the number with two, three, and four or more such occurrences.

5. The number of participants with arrearage balances at the time of enrollment showing the number with arrearages of: (a) $100 or less; (b) $101 to $299; and (c) $300 or greater.

6. The number of participants that had received disconnect notices at their current residence during the 12 months immediately prior to enrolling in the program.

7. For all program participants, the month each participant enrolled in the program, and individual monthly electric usage and bill amounts, comparing the month

in the current year with the same month in the prior year (i.e., August 2014 with August 2013, September 2014 with September 2013, October 2014 with May 2013, etc.)

8. Program fee collections, by month, for the time period covered by the report.

9. Program-related cost, by month.

10. Savings and margin losses realized as a result of the program.

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