

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF JACKSON)	
ENERGY COOPERATIVE CORPORATION)	CASE NO.
FOR A GENERAL ADJUSTMENT IN EXISTING)	2019-00066
RATES)	

ORDER

On March 28, 2019, Jackson Energy Cooperative Corporation (Jackson Energy), pursuant to the pilot “streamlined procedure” established in Case No. 2018-00407,¹ filed an application seeking a revenue neutral adjustment to its rates charged to its residential customers. By Order dated April 10, 2019, the Commission accepted Jackson Energy’s application pursuant to the “streamlined procedure” established in Case No. 2018-00407. The Order also established a procedural schedule for processing this case. Pursuant to the streamlined procedures, the Attorney General was made a party to the case.

The Attorney General is the only intervenor in the case. Jackson Energy responded to one information request from Commission Staff and one information request from the Attorney General. The Attorney General also filed comments in opposition to the change to the residential rate design.

BACKGROUND

Jackson Energy is a non-profit member-owned rural electric cooperative corporation, organized under KRS Chapter 279. It is engaged in the distribution and sale

¹ Case No. 2018-00407, *A Review Of the Rate Case Procedure For Electric Distribution Cooperatives* (Ky. PSC Mar. 26, 2019).

of electric energy to 51,434 customers in Breathitt, Clay, Estill, Jackson, Laurel, Lee, Leslie, Lincoln, Madison, Owsley, Powell, Pulaski, Rockcastle, and Wolfe counties.² It is one of 16 member cooperatives that own and receive wholesale power from East Kentucky Power Cooperative, Inc.

TEST PERIOD

Pursuant to the streamlined procedures established in Case No. 2018-00407, Jackson Energy is using a historical test period for the year ended December 31, 2017.³ Because it is not seeking an increase in revenues in this proceeding, Jackson Energy, pursuant to the streamlined procedure, received several waivers from certain filing requirements.⁴

JACKSON ENERGY'S PROPOSAL

Jackson Energy seeks to increase its residential customer charge, beginning for service rendered on and after July 1, 2019, by \$7.56 from \$16.44 to \$24.00, or a 46 percent increase, and decrease the energy charge by \$.00709/kWh from \$0.09591 to \$0.08882. Jackson Energy proposes no other adjustments. Jackson Energy seeks to stabilize its revenue stream with this proposed increase in the residential customer charge and a corresponding decrease in the volumetric rate.⁵ Jackson Energy believes that this

² Annual Report of Jackson Energy Cooperative Corporation to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2018 (filed Mar. 29, 2019) at pages 45 and 53.

³ Case No. 2018-00407, *A Review Of the Rate Case Procedure For Electric Distribution Cooperatives* (Ky. PSC Dec. 11, 2018) at 6.

⁴ See, generally, Case No. 2018-00407, *A Review Of the Rate Case Procedure For Electric Distribution Cooperatives* (Ky. PSC Dec 11, 2018) and as amended by subsequent order, Case No. 2018-00407, *A Review Of the Rate Case Procedure For Electric Distribution Cooperatives* (Ky. PSC Mar. 26, 2019).

⁵ Application, Exhibit D, Direct Testimony of Virginia Carol Write at 2, lines 14–15.

rate design will result in increased financial stability and more accurately reflect the cost to serve residential members.⁶ Jackson Energy explained it did not seek an increase in revenue because it is meeting its mortgage covenants, and a revenue-neutral case will allow for movement towards the true cost to serve and lower the subsidization of the residential rate class.⁷

Jackson Energy states that it is only proposing a change in their rate design for the residential class, as this is the largest class of consumers contributing 74 percent to total revenue and is the only class subsidized by the other rate classes.⁸ Pursuant to the streamlined procedure, Jackson Energy filed an updated Cost-of-Service Study (COSS) supporting a fixed monthly charge of \$31.95.⁹ The proposed customer charge of \$24.00 represents a movement of 49 percent towards cost-based rates coupled with an energy charge that allows for the overall revenue change for the residential class to be zero. This also implies that the average consumer will see no change in the amount of his or her bill.

INTERVENOR COMMENTS

The Attorney General contends that Jackson Energy's filing is not revenue neutral because it is not based upon the revenue requirement from Jackson Energy's last rate case, Case No. 2013–00219,¹⁰ but revenues and expenses from Jackson Energy's 2018

⁶ *Id.* lines 16–17.

⁷ Jackson Energy's Response to Commission Staff's First Request for Information (filed May 13, 2019).

⁸ Application, Exhibit D, Direct Testimony of John Wolfram (Wolfram Testimony), at 8, line 10 and at 16, line 10.

⁹ *Id.* lines 18-19. See also, Exhibit JW-3 at 2.

¹⁰ Case No 2013-00219, *Application of Jackson Energy Cooperative Corporation for an Adjustment in Rates* (Ky. PSC Feb. 27, 2014).

annual report.¹¹ The Attorney General argues that the revenues and expenses in this case are distinct and different from those reviewed in the prior rate case and such expenses and revenues have not been fully reviewed nor Commission approved.¹² He further argues that the filing is not revenue neutral because Jackson Energy's expert witness, Mr. John Wolfram, states that he used pro forma operating results for the test year for the COSS. However, these pro forma adjustments are not explained anywhere in the Application.¹³

The Attorney General continues, stating that Jackson Energy refused to fully answer his requests for information, and instead, objected to his requests and provided no explanation as to how the objections are actually applicable to the requests made.¹⁴ In particular, the Attorney General notes that the streamlined procedure did not provide an exemption from the requirements in Appendix A, Section D, of the Streamline Order.¹⁵ When questioned, Jackson Energy objected and, according to the Attorney General, failed to provide the information necessary to determine whether Jackson Energy had properly removed certain expenses for ratemaking purposes.¹⁶ The Attorney General accuses Jackson Energy of not being forthcoming and claims that just because the case

¹¹ Attorney General's May 20, 2019 Filed Comments (Attorney General's Comments) at 3.

¹² *Id.* at 4.

¹³ *Id.* at 3.

¹⁴ *Id.* at 4.

¹⁵ Section D states items that shall be excluded from the pro forma test-year income statements including contributions for the least generous plans of employer retirement contributions for employees participating in multiple benefit packages, life insurance premiums for coverage above the lesser of an employee's annual salary or \$50,000, and Directors fees.

¹⁶ Attorney General's Comments at 5.

is revenue neutral and streamlined; it does not entitle the utility to be any less transparent.¹⁷ The Attorney General states that if utilities who employ the streamlined rate procedure object and do not fully answer inquiries and thus not allow for a meaningful discovery, the Attorney General will be forced to object to the process.¹⁸

In his comments, the Attorney General objects to the proposed rate design shift and increased customer charge finding that such a rate design disproportionately falls on residential customers as those who use less than average will see an increase in their bill and those that use more than average will see a decrease to their bill.¹⁹ He continued by stating that the proposed rate design disincentivizes conservation efforts and is supported by a COSS that should be rejected as it is overstated due to the treatment of poles.²⁰ He further contends that the proposed 49 percent increase in the customer charge is too large of a step and does not support a measured movement towards cost-based rates.²¹

The Attorney General asks that if the Commission decides to approve any of Jackson Energy's proposals, that the Commission continue to follow the precedent on the reliance on the principle of gradualism and to appropriately consider affordability.²² Ultimately, the Attorney General believes that Jackson Energy should be denied the revenue neutral streamline procedure arguing that the utility failed to provide the

¹⁷ *Id.* at 6.

¹⁸ *Id.*

¹⁹ *Id.* at 7.

²⁰ Poles were allocated between demand and fixed charges based upon the minimum system method.

²¹ Attorney General Comments at 8–9.

²² *Id.* at 9.

necessary information and that the revenues and expenses used in the COSS have not been adjusted or thoroughly reviewed.

DISCUSSION OF ISSUES

For the revenue-neutral process, the overall revenue increase is zero and no change in the rate allocation is requested, rather just a change in the rate design within a rate class is proposed. In addition, a revenue-neutral case does not have any pro forma adjustments to expenses, nor does it normalize revenues. For prior revenue-neutral cases before this Commission, year-end expenses and revenues were the basis of the COSS and rate design, and deviations for both pro forma adjustments and normalization of revenues were requested and granted.²³ Jackson Energy followed the revenue neutral process in that only the rate design within the residential class is proposed to be reallocated and year-end unadjusted data was used. As for the COSS, Mr. Wolfram made no pro forma adjustments, and his testimony that such adjustments were made is incorrect.²⁴

Having reviewed Jackson Energy's COSS, the Commission finds it to be acceptable for use as a guide in determining the revenue neutral rate design and notes that it supports a fixed monthly charge of \$31.95 for the residential class. Regarding the

²³ See 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 Rate Classes*, (Ky. PSC Feb. 29, 2012) and Case No. 2012-00369, *Application of Fleming-Mason Energy Cooperative, Inc. for an Order Authorizing a Change in Rate Design for Its Residential Rate Classes and the Offering of Several Optional Rate Designs for the Residential Rate Classes* (Ky. PSC July 2, 2013).

²⁴ Exhibit JW-2, Statement of Operations and Revenue Requirement, of the Application matches the 2017 Annual Report on file with the Commission, which matches the filed COSS expenses except for the Donation Expense of \$45,874 included on line 322 of the Func & Classif Tab of the COSS. The Commission notes that the ultimate impact of this \$45,874 is immaterial to the final COSS results.

pole allocation, the use of the zero intercept method is the preferred method; however, when the zero intercept method produces anomalous results, such as in this case, then the minimum system method is accepted and follows the NARUC guidelines.²⁵ The Commission supports the NARUC guidelines and supports the use of the minimum system in the absence of usable results in the zero intercept method.²⁶ The Commission also observes that, for an electric cooperative that is strictly a distribution utility, there is merit in providing a means to guard against revenue erosion that often occurs due to the decrease in sales volumes that accompanies poor regional economics and changes in weather patterns, and this Commission has been consistently in favor of raising the customer charge in utility rate cases to reflect the fixed costs inherent in providing utility service. Furthermore, the proposed rate design will actually be beneficial to the customers receiving assistance, as the average usage of such residential customers is 1,238 kWh versus 1,066 kWh for the average Jackson Energy customer.²⁷ Therefore, the Commission finds that the proposed residential customer charge of \$24.00 to be within the COSS results and is reasonable and should be approved, along with the corresponding decrease of \$.00709/kWh, from \$0.09591 to \$0.08882, in the energy charge to maintain revenue neutrality.

²⁵ Wolfram Testimony at 13.

²⁶ See Case No. 2018-00272, *Grayson Rural Electric Cooperative Corporation for an Adjustment of Rates* (Ky. PSC Mar. 28, 2019) and Case No. 2017-00374, *Application of Big Sandy Rural Electric Cooperative Corporation for a General Adjustment in Existing Rates* (Ky. PSC Apr. 26, 2018).

²⁷ Jackson Energy's Response to Staff's First Request, Item 3 and Application, Exhibit A.

Customer Charge	Energy Charge	Average (1066 kWh)	Assistance (1238 kWh)
\$16.44	\$0.09591	\$118.68	\$135.18
\$24.00	\$0.08882	\$118.68	\$133.96

The Commission finds that Jackson Energy's Application is revenue neutral as it follows the design of prior revenue-neutral cases, specifically Case Nos. 2011-00037 and 2012-00369. Further, Jackson Energy has complied with the requirement of the "streamlined procedure" to use actual year-end expenses and revenues for the historic test year that corresponds with its most recent annual report on file with the Commission at the time the application was filed. The information requested by the Attorney General but not provided by Jackson Energy would be relevant if this was an application for a general rate increase rather than an application for a revenue-neutral rate design. Jackson Energy has filed all relevant information needed to process this case even though some of the information requested by the Attorney General was not specifically exempted under the "streamlined procedure" from inclusion in a revenue-neutral rate design application. Being that this is a pilot project, the Commission appreciates the Attorney General bringing this issue to our attention and the need to grant a deviation. Going forward, we will consider whether revisions are needed to the filing requirements and the exemptions set forth in the "streamlined procedure."

IT IS THEREFORE ORDERED that:

1. Jackson Energy's proposed increase to its residential customer charge from \$16.44 to \$24.00, and decrease in its energy charge from \$0.09591/kWh to \$0.08882/kWh is approved.
2. The rates and tariffs set forth in the Appendix to this Order are approved for service rendered on and after July 1, 2019.
3. Within 20 days of entry of this Order, Jackson Energy shall file with this Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets

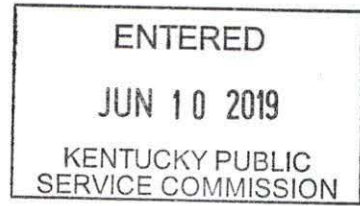
setting out the rates approved herein and reflecting the date of issue, the effective date, and that they were approved pursuant to this Order.

4. Jackson Energy is granted a deviation from the filing requirements set forth in the “streamlined procedure,” Appendix A, Section D.

5. This case is closed and removed from the Commission’s docket.

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By the Commission



ATTEST:


Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2019-00066 DATED **JUN 10 2019**

The following rates and charges are prescribed for the customers in the area served by Jackson Energy Cooperative Cooperation for service rendered on and after July 1, 2019. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective of the rates authorized in this Order.

SCHEDULE 10 – RESIDENTIAL SERVICE

Customer Charge per month	\$ 24.00
Energy Charge per kWh	\$ 0.08882

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