COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF JACKSON PURCHASE ENERGY CORPORATION FOR A GENERAL ADJUSTMENT OF RATES AND OTHER GENERAL RELIEF	))))	CASE NO. 2021-00358

<u>O R D E R</u>

On October 15, 2021, Jackson Purchase Energy Corporation (Jackson Purchase) filed an application seeking approval for a general rate adjustment. Jackson Purchase initially proposed to increase base rates by $7,301,495, which represents a 10.5 percent increase. As discussed below, Jackson Purchase subsequently revised its requested increase during the pendency of this proceeding to $7,118,789.[1] By Order entered October 22, 2021, the proposed effective date was suspended for five months, up to and including April 13, 2022.

Jackson Purchase stated that the reasons for the requested rate increase are the substantial increase in general operating expenses and continued decline in energy sales. In particular, there has been a substantial increase in right-of-way management expense, which Jackson Purchase explained represented approximately 45 percent of the original rate increase.[2] Jackson Purchase had a streamlined rate adjustment in 2019

---

[1] Rebuttal Testimony of John Wolfram (Wolfram Rebuttal Testimony), Exhibit JPEC-RevReq-FILED.xlsx at Tab RevReq.

[2] Application, paragraph 26.

(2019 Rate Case).[3] Jackson Purchase's last general rate adjustment was based on a settlement and was approved on June 17, 2008.[4]

The Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General) is the only intervenor in this matter. The parties responded to multiple rounds of discovery and filed direct and rebuttal testimony. On February 24, 2022, a formal hearing was held. Jackson Purchase filed responses to post-hearing data requests on March 8, 2022. Jackson Purchase and the Attorney General filed their respective briefs on March 15, 2022, and response briefs on March 22, 2022.

This matter now stands submitted for a decision based upon the case record.

LEGAL STANDARD

Jackson Purchase filed its application pursuant to KRS 278.180, KRS 278.190, and 807 KAR 5:001. The Commission's standard of review of a utility's request for a rate increase is well established. In accordance with statutory and case law, Jackson Purchase is allowed to charge its customers "only 'fair, just, and reasonable rates.'"[5] Further, Jackson Purchase bears the burden of proof to show that the proposed rate increase is just and reasonable, under KRS 278.190(3).

[3] Case No. 2019-00053 *Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment in Existing Rates* (Ky. PSC June 20, 2019).

[4] Case No. 2007-00116, *General Adjustment of Electric Rates of Jackson Purchase Energy Corporation* (Ky. PSC June 18, 2008).

[5] KRS 278.030; and *Pub. Serv. Comm'n v. Com. ex rel. Conway*, 324 S.W.3d 373, 377 (Ky. 2010).

BACKGROUND

Jackson Purchase is a non-profit member-owned rural electric cooperative corporation, organized under KRS Chapter 279. It is engaged in the distribution and sale of electric energy to 30,336 customers in Ballard, Carlisle, Graves, Livingston, McCracken, and Marshall counties, Kentucky.[6] Jackson Purchase Energy does not own any electric generating facilities and is one of three distribution cooperatives that receive wholesale power from Big Rivers Electric Corporation (BREC).

TEST PERIOD

Jackson Purchase proposed the 12-month period ending December 31, 2019, as the test period for determining the reasonableness of its proposed rates. The Attorney General did not contest the proposed test period, but, as explained below, asserted that certain post-test year expenses should be limited to 2020.[7] The Commission concludes that it is reasonable to use the 12-month period ending December 31, 2019 as the test period. The Commission's decision in this regard is because Jackson Purchase, similar to other utilities, experienced unusual and extraordinary revenues and expenses in calendar year 2020 due to the COVID-19 pandemic. Except for the adjustments approved in this Order, the revenues and expenses incurred during the proposed test period are neither unusual nor extraordinary. Therefore, the Commission finds that the 12-month period ending December 31, 2019, is a reasonable period to use for setting

[6] *Annual Report of Jackson Purchase Energy Corporation to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2020* at 45 and 53

[7] Direct Testimony of Lane Kollen (Kollen Direct Testimony) at 14–16.

rates in this matter. In using this historic test period, the Commission gave full consideration to appropriate known and measurable changes.[8]

As noted above, in responses to request for discovery and in rebuttal testimony, Jackson Purchase revised its initial requested increase of $7,301,495 to $7,118,789. A summary of Jackson Purchase's revised revenue requirement from the rebuttal testimony is shown in the table below:

[8] *See* 807 KAR 5:001, Section 16(1)(a)(1). *See also Public Service Comm'n v. Continental Telephone Co. of Ky.*, 692 S.W.2d 794, 799 (Ky. 1985) ("There is also a provision for an adjustment because of known and measurable changes outside the test year.").

Description	Test Year Actual	Jackson Purchase Adjustments	Jackson Purchase Pro Forma TY
Operating Revenues			
Total Sales of Electric Energy	68,120,498	(2,504,931)	65,615,567
Other Electric Revenue	1,307,203	20,001	1,327,204
Total Operating Revenue	69,427,701	(2,484,930)	66,942,771
Operating Expenses:			
Purchased Power	50,688,769	(2,177,317)	48,511,452
Distribution Operations	3,308,445	31,381	3,339,826
Distribution Maintenance	2,921,678	4,099,001	7,020,679
Customer Accounts	1,273,783	27,251	1,301,034
Customer Service	40,607	3,351	43,958
Sales Expense	3,691	-	3,691
A&G	3,237,313	(251,472)	2,985,841
Total O&M Expense	61,474,286	1,732,195	63,206,481
Depreciation	6,016,651	574,394	6,591,045
Taxes - Other	90,258	-	90,258
Interest on LTD	1,961,144	233,473	2,194,617
Interest - Other	233,334	(171,498)	61,836
Other Deductions	2,796	-	2,796
Total Cost of Electric Service	69,778,469	2,368,564	72,147,033
Utility Operating Margins	(350,768)	(4,853,494)	(5,204,262)
Non-Operating Margins - Interest	415,932	(1,249,488)	(833,556)
Income(Loss) from Equity Investments	-	-	-
Non-Operating Margins - Other	934,232	-	934,232
G&T Capital Credits	-	-	-
Other Capital Credits	179,415	-	179,415
Net Margins	1,178,811	(6,102,982)	(4,924,172)
Cash Receipts from Lenders	77,191		77,191
OTIER	0.86		(1.34)
TIER	1.60		(1.24)
TIER excluding GTCC	1.60		(1.24)
Target TIER	2.00		2.00
Margins at Target TIER	1,961,144		2,194,617
Revenue Requirement	71,739,613		74,341,650
Revenue Deficiency	782,333		7,118,789

The Commission finds that the revised increase shall be used as the starting point for the Commission's adjustments to the required revenue increase as described below.

REVENUE REQUIREMENT

1. Revenue and Expense Adjustments

a. Nonrecurring Charges. As detailed later in this Order, the Commission made an adjustment to the nonrecurring charges to eliminate labor from the cost support calculations. The Commission also adjusted the pole attachment rates to recognize the updated cost support based on current expenses. This results in an increase in other revenue of $64,444.

b. Salaries and Wages Expense. Jackson Purchase proposed to increase test year expenses $175,682 to annualize payroll expense based on a pro forma year with a staffing level of 70 employees working 2,080 hours and utilizing the amount of overtime hours and other hours from the test year ended December 31, 2019.[9] Additionally, the adjustment applied an average wage based on the wage rates for each employee on Jackson Purchase's roster for April 2021.[10] The Attorney General's witness, Lane Kollen, proposed to reduce the revenue requirement by $283,328 to reflect Jackson Purchase's actual payroll expense incurred in the calendar year 2020.[11] As support for this proposal, Mr. Kollen maintained that, by extending the known and measurable adjustments to the test period through April 2021, Jackson Purchase was utilizing a hypothetical, rather than actual, payroll expense, asserting that the use of hypothetical expenses is inappropriate.[12] Mr. Kollen further maintained that using post-test year expenses through

---

[9] Application, Exhibit JW-2 at 17, Adjustment 1.12.

[10] Jackson Purchase's Response to the Attorney General's Second Request for Information (Attorney General's Second Request) (filed Jan. 3, 2022), Item 5.

[11] Kollen Direct Testimony at 16.

[12] *Id.* at 13–14.

April 2021 extended the time period too far outside the scope of known and measurable adjustments to the test year. Mr. Kollen argued that the Commission should limit known and measurable post-test year adjustments to December 31, 2020, the 12 months after the end of the historic test year, with the sole exception of the amounts incurred for the new headquarters building due to the magnitude of the cost.[13]

Commission regulation 807 KAR 5:001, Section 16(1), requires that an application requesting a general adjustment of existing rates using a historical test period must be supported by a "twelve months historical test period that may include adjustments for known and measurable changes." Pursuant to this standard, Jackson Purchase's salary and wage expense calculations use a methodology that can easily be measured, but are not based on known changes. First, the calculation assumes that on a going-forward basis, Jackson Purchase will have 70 employees that will all work 2,080 hours each year. However, the evidence of record indicates that Jackson Purchase does not currently have 70 employees.[14] Second, the calculation assumes that April 2021 wages are representative of all wages for an annual period. However, the Commission historically has not allowed a utility to use expenses incurred in a single month and annualize that month to perform its calculations in a rate case, absent evidence in the case record that the pro forma amounts accurately reflect, in all material respects, current and expected conditions.[15] As discussed below, the case record reflects actual payroll expense for the

---

[13] *Id.* at 7.

[14] Jackson Purchase's Response to the Attorney General's Second Request, Item 10.

[15] *See* Case No. 2021-00103 *Electronic Application of East Kentucky Power Cooperative, Inc. for a General Adjustment of Rates, Approval of Depreciation Study, Amortization of Certain Regulatory Assets, and other General Relief* (Ky. PSC Sept. 30, 2021) at 10.

calendar year 2021, and that these expenses differ from Jackson Purchas's pro forma amount. For these reasons, the Commission finds that Jackson Purchase's proposed pro forma adjustment for salary and wage expenses is not reasonable because it is not based upon known and measurable changes.

The Commission further finds that Mr. Kollen's proposal to limit the post-test year adjustments to the 12-month period ending December 31, 2020, is also not reasonable. This is because 807 KAR 5:001, Section 16(1) does not specify a time limitation on a proposed adjustment to a historical test year period, but rather that the adjustment must be based upon known and measurable changes.

The Commission notes that the evidence in the record demonstrates that Jackson Purchase's actual payroll expense for the calendar year 2021 was $3,389,173.[16] The calendar year 2021 actual payroll expense is both known and measurable, and more current. Therefore, the Commission finds that using the actual payroll expense for the calendar year ended December 31, 2021, is reasonable and should be accepted as a proxy for the test year payroll expense because the amounts developed in the case record reflect, in all material respects, current and expected conditions with regard to salaries and wages for Jackson Purchase, and therefore are known and measurable. To that end, the Commission finds that a decrease of $209,767 to the revised revenue requirement is necessary.

c. Right-of-Way Management Expense. Jackson Purchase proposed to increase test year expenses $3,316,317 to reflect the cost of its new contract for

---

[16] Jackson Purchase's Response to Commission Staff's Post Hearing Data Request (Staff's Post Hearing Request) (filed Mar. 8, 2022), Item 1.

vegetation management of its right-of-way (ROW) times the number of miles Jackson Purchase estimated it would clear each year pursuant to the contract.[17]

Mr. Kollen proposed to reduce the ROW expense by $1,824,010, based on Jackson Purchase's costs per circuit mile in 2020 and under the assumption that Jackson Purchase will actually trim 358 miles per year as proposed in the application in this case.[18] Additionally, Mr. Kollen recommended that the Commission initiate a focused management audit to address Jackson Purchase's ROW management process, the ROW costs incurred by Jackson Purchase, and Jackson Purchase's failure to enforce its contractual rights against the contracting company Jackson Purchase has primarily used, Townsend Tree Service (Townsend).[19] Mr. Kollen also recommended that it was reasonable to require Jackson Purchase to use reserve accounting for any approved ROW management expense, and that the Commission should monitor Jackson Purchase's ongoing performance in quarterly filings to the Commission.[20]

In rebuttal, Jackson Purchase disagreed with the recommendations made by Mr. Kollen regarding the pro forma amount and cited two recent cases before the Commission where ROW management expense adjustments had been approved by the Commission.[21] Jackson Purchase stated that it is not aware of any distribution cooperatives in Kentucky that are required to use reserve accounting for ROW management costs, and therefore objected to the recommendation that they be required

[17] Application, Exhibit JW-2, Reference Schedule 1.18.

[18] Kollen Direct Testimony at 26–27.

[19] *Id.* at 26.

[20] *Id.* at 27.

[21] Wolfram Rebuttal Testimony at 15–16.

to employ this accounting treatment.[22] Jackson Purchase contended that the requirement of a focused management audit would be excessive, unnecessary, and a waste of resources, because large increases in ROW costs are common in Kentucky utilities because ROW contractors have moved to annual contracts to address significant increases in labor, fuel, and equipment costs.[23] Jackson Purchase maintained that it did not pursue damages following the contractor's decision to back out of its prior ROW management contract, and continued to accept bids from and award ROW contracts to that contractor because no reasonable alternatives were identified.[24]

In its post hearing brief, Jackson Purchase reiterated that the increase in ROW costs are consistent with industry trends, arising from increased costs to the contractors.[25] Jackson Purchase argued that Mr. Kollen's adjustment should be rejected as unrealistic because, Jackson Purchase's requested adjustment is known and measurable based on the current facts.[26]

The Attorney General asserted that Mr. Kollen's recommendations were thoughtful and constructive methods to address the problems with Jackson Purchase's ROW management, specifically with regard to a focused management audit, required quarterly reporting, and the use of reserve accounting.[27] The Attorney General maintained that Mr. Kollen's proposed adjustment is a reasonable level of expense that should be approved

---

[22] *Id.* at 16.

[23] Rebuttal Testimony of Greg Grissom (Grissom Rebuttal Testimony) at 3.

[24] *Id.* at 4.

[25] Jackson Purchase's Post Hearing Brief at 14.

[26] *Id.* at 14–15.

[27] Attorney General's Post Hearing Brief at 8.

until such time the Commission is able to retain a consultant to conduct a focused management audit and determine the best approach going forward.[28]

The Commission notes that Jackson Purchase entered into multiple contracts with Townsend after Townsend informed Jackson Purchase in 2019 that Townsend would not perform on its contractual obligations for 2020 and 2021.[29] The Commission is concerned that Jackson Purchase not only chose not to pursue legal recourse for breach of contract, but also entered into subsequent contractual arrangements with Townsend. None of these subsequent contracts recognized or were adjusted to reflect the significant action of Jackson Purchase in releasing Townsend from their previous contracts and the lower costs embedded in those contracts. The Commission weighs its concerns of Jackson Purchase's poor management decisions in this regard against the importance that Jackson Purchase have sufficient financial resources to properly implement its vegetation management program to provide adequate and reliable electric service. Based on the specific circumstances presented here, Jackson Purchase's unreasonable management practice regarding is ROW contractors should not now hinder the utility's ability to conduct proper ROW maintenance. Customers will be penalized either way; either ROW costs will go up or actual ROW maintenance will decrease. The latter option increases the likelihood of unsafe and unreliable electric service. Further, as opposed to an investor-owned utility, electric cooperative's customers are also its shareholders. Penalizing shareholders in this instance for management's mistakes ultimately harms customers

[28] *Id*.

[29] Jackson Purchase's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Nov. 28, 2021), Item 21b.

either way. Removing these expenses from rates after the costly decisions have been made will not serve customer's best interests.

Further, the Commission is not persuaded by Mr. Kollen's proposal to decrease ROW management expense given the evidence of record that supported Jackson Purchase's proposed expense. The Commission is also not persuaded by Mr. Kollen's argument that a focused management audit should be conducted. Based upon the case record regarding ROW management costs, the Commission finds that the adjustment proposed by Jackson Purchase is reasonable and should be accepted because it reflects the actual costs of ROW management expected.

However, the Commission places Jackson Purchase on notice that Jackson Purchase cannot continue in its approach to ROW management. In finding the proposed ROW management expense reasonable, the Commission is not excusing Jackson Purchase's past decisions. The Commission strongly encourages Jackson Purchase to take significant steps to address ROW management expenses, such as working with other electric utilities to develop regional bids for ROW management contracts. Merely taking the position that "the costs are what the costs are," is inexcusable. In any future rate case, whether a streamlined case or a general rate adjustment case, Jackson Purchase should provide in specific detail what actions it has taken to address the ROW management expenses.

d. <u>Purchased Power on New Headquarters Building</u>. Jackson Purchase included in test year operations $123,810 in purchased power expense for electricity costs related to its headquarters building.[30] Jackson Purchase did not propose any pro forma adjustment to this expense.

Mr. Kollen proposed to reduce test year expense by $123,810, arguing that Jackson Purchase no longer incurs this expense, and that electric expense for Jackson Purchase's new headquarters building is recovered through its fuel adjustment clause (FAC) rider, not base revenues.[31]

Jackson Purchase responded in rebuttal testimony that purchased power expense related to its own use is not recovered through the FAC rider and that this expense is booked through Account 555 on its general ledger.[32] In addition, in its post hearing brief, Jackson Purchase stated that the new headquarters is situated in BREC's territory. Jackson Purchase asserted that the expense is based on the wholesale rate Jackson Purchase pays BREC, which will likely result in a purchased power cost savings, but there are increased expenses related to property tax and insurance that Jackson Purchase did not include in the test period that will likely exceed any savings related to purchased power.[33]

In its request for a Certificate of Public Convenience and Necessity (CPCN) in Case No. 2019-00326, Jackson Purchase forecasted a savings in electricity costs by relocating to the new headquarters building by $41,822 annually for the years 2022-

---

[30] Jackson Purchase's Response to the Attorney General's First Request for Information (Attorney General's First Request) (filed Nov. 28, 2021), Item 14f.

[31] Kollen Direct Testimony at 19.

[32] Wolfram Rebuttal Testimony at 12.

[33] Jackson Purchase Post Hearing Brief at 22–23.

2028.[34] Also in that case, Jackson Purchase stated that it planned to locate the new headquarters in Jackson Purchase's service territory, which would result in a 35-45 percent savings from its current power bill.[35]

The Commission is concerned that Jackson Purchase provided testimony in the prior case specifically highlighting a cost savings on purchased power while the expected net result of all the expenses associated with the new headquarters building appears to be an overall increase. However, there is not sufficient evidence in the case record to make a known and measurable adjustment to increase or decrease incidental expenses related to the new headquarters building given the short time that Jackson Purchase has been in the new headquarters. For this reason, the Commission finds that no adjustment shall be made to the purchased power expense. The Commission puts Jackson Purchase on further notice that, in future streamlined or general rate adjustment cases, Jackson Purchase must be prepared to demonstrate the cost savings from the new headquarters or to provide evidence, in sufficient detail, why the cost savings have not materialized. The Commission also cautions Jackson Purchase and other utilities under its jurisdiction about the candor and transparency they should employ in proposals before the Commission.

e. Long Term Debt Interest. Jackson Purchase included in its application an estimate of interest expense on a Rural Utility Service (RUS) loan for its new headquarters building of $396,840. In responses to discovery, Jackson Purchase revised its revenue

[34] Case No. 2019-00326 *Electronic Application of Jackson Purchase Energy Corporation for a Certificate of Public Convenience and Necessity to Construct a New Headquarters Facility* (filed Sept. 13, 2019), Application, Exhibit 4 at 7.

[35] *Id*., Application, Exhibit 3 at 12.

requirement calculation which, among other things, updated interest expense for the RUS loan that closed in November 2021[36] and eliminated short term interest incurred in the test period.[37]

Mr. Kollen proposed to eliminate interest expense not related to the construction of the new headquarters building in Jackson Purchase's update, asserting that Jackson Purchase was not entitled to continuously update its test year costs while the rate case is pending for costs that Jackson Purchase, forecasts that it will incur until nearly three years after the historic test year that it chose for its filing.[38]

Jackson Purchase stated that the note from RUS included borrowing of $16,800,000 that was used to pay off the line of credit with CoBank.[39] The total note was for $21,926,146 of which $6,815,199 was for completed distribution projects and $15,110,947 was for the construction of the new headquarters building.[40] Jackson Purchase claimed that the excess funds have resulted in Jackson Purchase having sufficient cash balance to not perform short-term borrowing for the foreseeable future.[41]

The Commission notes that the RUS borrowing was a large, foreseeable expense that would have a material impact on the test period in this case. The amounts that were expensed for distribution projects are incidental to the overarching need to borrow the funds to pay off the line of credit agreement with CoBank, and that when the amounts

---

[36] Jackson Purchase's Response to the Attorney General's First Request, Item 29.

[37] Jackson Purchase's Response to the Attorney General's Second Request, Item 15b.

[38] Kollen Direct Testimony at 35.

[39] Jackson Purchase's Response to Commission Staff's Post Hearing Request, Item 7.

[40] *Id*.

[41] *Id*.

that were estimated in the application became known and measurable, Jackson Purchase presented the information and revised its request. For these reasons, the Commission finds that the interest expense proposed by Jackson Purchase, alongside the reduction in short term interest is reasonable and is accepted.

f. Rate Case Expense. Jackson Purchase proposed to increase its test year expenses $58,333 for a three-year amortization of estimated expenses of $175,000, which would be incurred in relation to this proceeding.[42] On March 18, 2022, Jackson Purchase filed an update stating that it had expended $181,713 for rate case expenses through February 2022, which included legal services and consultants' fees for Jackson Purchase's revenue requirement and rate design.[43]

The Commission finds that, based on the summaries provided throughout the pendency of this case and a review of the supporting invoices, the amount detailed in Jackson Purchase's March 18, 2022 filing fairly represents the total costs to prepare and fully litigate this proceeding. Therefore, the Commission finds that rate case expense should be increased to $181,713 amortized over three years, to reflect the actual filed rate case expenses. This adjustment results in a test-year amortization expense of $60,571, a $2,238 increase to the filed revenue requirement.

2. TIER

In its application, Jackson Purchase proposed a Times Interest Earned Ratio (TIER) of 2.00.[44] Mr. Kollen argued that a maximum 1.50 TIER is reasonable, because it

[42] Application, Exhibit JW-2 at 2, Adjustment 1.08.

[43] Jackson Purchase's Supplemental Response to Commission Staff's First Request (filed Mar. 18, 2022), Item 39.

[44] Direct Testimony of Jeffrey R. Williams at 4.

is well in excess of the required TIER pursuant to its loan agreements and will still allow growth of members' equity of 2.3 percent annually.[45] In rebuttal testimony, Jackson Purchase asserted that Mr. Kollen's recommended 1.50 TIER was unreasonable because it would place Jackson Purchase in the lowest ranks for TIER of the 815 cooperatives nationwide, and the lowest authorized TIER in the state.[46] The Attorney General reiterated in its brief that a 2.00 TIER is excessive in comparison to what is required by its loan covenants. The Attorney General argued that Jackson Purchase has more than sufficient member equity and thus a 2.0 TIER incentivizes additional discretionary spending and allows Jackson Purchase to collect excessive revenues without an equivalent mechanism to fully and timely return those excesses to customers through capital credits.[47] Jackson Purchase disputed that a higher authorized TIER is an incentive for additional discretionary spending.[48]

As Mr. Wolfram pointed out in his rebuttal testimony, there is significant Commission precedent that a 2.00 authorized TIER has been consistently applied in electric coop cases for many years.[49] However, the Commission notes that the calculation of the target TIER is reliant on the debt rates associated with the utility making the request. Debt rates are subject to market conditions at the time the indebtedness is entered and agreed upon. Historically, Jackson Purchase has entered into indebtedness with interest rates ranging from 2.457 percent, to 4.9 percent per annum. More recently,

---

[45] Kollen Direct Testimony at 42–43.

[46] Wolfram Rebuttal Testimony at 19–20.

[47] Attorney General's Post Hearing Brief at 9.

[48] Jackson Purchase's Post Hearing Brief at 19.

[49] Wolfram Rebuttal Testimony at 21.

interest rates have lowered and Jackson Purchase has successfully secured long term financing with interest rates of approximately 1.5 percent. If the Commission were to authorize a TIER lower than 2.00, Jackson Purchase will have less cash working capital, and specifically on its newer, lower interest indebtedness, which could impair Jackson Purchase's ability to have sufficient cash flow to respond to unforeseen expenses. The Commission notes that the authorized TIER for an electric distribution cooperative will be addressed on a case by case basis, and the current interest rates for the cooperative and market conditions must be part of the consideration. Based on the evidence in the case record, the Commission finds that the authorized TIER in this case shall be 2.00 because, if a lower TIER were authorized, Jackson Purchase's cash flow and operating margin would be reduced beyond a reasonable level.

3. Revenue Requirement Summary

After considering the pro forma adjustments discussed above, Jackson Purchase's adjusted Required Revenue from Base Rates is as follows:[50]

	Adjustment Amount
Revenue Increase Requested by JPEC in Rebuttal Testimony	$ 7,118,789
Commission Adjustments to JPEC's Updated Calculated Revenue Requirement:	
Adjustment to Revenue Requirement for Revised Nonrecurring Charges	(64,444)
Adjust Salaries and Wages Expense to 2021 Actuals	(209,767)
Rate Case Expense Update	2,238
Total Adjustments to JPEC's Updated Requested Increase	(271,973)
Adjusted Revenue Requirement Increase	$ 6,846,816

[50] For a detailed summary of the Revenue Requirement, see Appendix B.

PRICING AND TARIFF ISSUES

Cost of Service

Jackson Purchase filed a fully allocated cost of service study (COSS), in order to determine the cost to serve each class. This COSS was revised based upon the revised revenue requirement in the rebuttal testimony. The COSS allocated power supply and transmission demand-related costs based upon the 12 coincident peaks.[51] For the distribution components, the zero intercept was used for the overhead conductors, underground conductors, and transformers. For the poles, the zero intercept method failed and Jackson Purchase applied the allocation for the overhead conductor as a proxy, stating that this method was also applied in COSS's for other utilities.[52] The COSS determined Jackson Purchase's overall rate of return on rate base and the relative rates of return from each rate class and was used as guide in the proposed rate design.[53] Having reviewed Jackson Purchase's revised COSS, the Commission finds it to be acceptable for use as a guide in allocating the revenue increase granted in this Order.

Revenue Allocation and Rate Design

The revised COSS illustrated that, based upon the rate class's rate of return (ROR) on rate base, the residential and small commercial classes are not contributing commensurate with the cost to serve such customers. Additionally, the Direct Serviced and Lighting rate classes are significantly over contributing, as shown below.[54]

---

[51] Direct Testimony of John Wolfram (Wolfram Direct Testimony) at 18.

[52] Jackson Purchase's Response to Staff's First Request, Item 26.

[53] Wolfram Direct Testimony at 14.

[54] Wolfram Rebuttal Testimony, Copy_of_JPEC-COS-Revised_02-17-2022.xlsm (Revised COSS), Tab Summary of Returns.

Revised COSS	ROR on Rate Base	Unitized ROR
Residential	-4.75%	(1.54)
Small Commercial Single Phase	-5.06%	(1.64)
Small Commercial Three Phase	-4.97%	(1.61)
Commercial & Industrial Demand < 3,000kW	2.07%	0.66
Commercial & Industrial – Direct Served	170.56%	55.39
Large Commercial Existing	1.38%	0.45
Outdoor Lighting	26.45%	8.59
TOTAL	-3.08%	1.00

For the revenue allocation, Jackson Purchase proposed not to apply an increase to the Direct Served and Lighting rate classes. For the remaining rate classes, the revenue increase was applied so that the total revenue of each class would yield a constant ROR on rate base, or 3.30 percent. If the Commission adopted Jackson Purchase's proposed revenue allocation, then, based upon the revenue requirement approved in this Order, the revenue increase would yield a ROR on rate base of 2.84 percent for the rate classes receiving an increase, but would result in a lower energy charge for the Small Commercial Single Phase rate class as compared to the Residential rate class. A similar situation occurred in the 2019 Rate Case in which the proposed increase to the residential customer charge resulted in a customer charge that was higher than the Small Commercial Single Phase customer charge. In the 2019 Rate Case, the Commission rejected the proposed rate design and found that a customer charge that, at a minimum, is equal to the residential class to be reasonable.[55] On that same basis, the Commission finds that the Small Commercial Single Phase rate class should not be charged any rate lower than the Residential rate class. Therefore, the allocation of the rate increase does not result in a uniform ROR. Based upon the revenue requirement

[55] Case No. 2019-00053, *Jackson Purchase Energy Corporation* (Ky. PSC June 20, 2019), final Order at 16.

approved in this Order, the increase applied will yield a total ROR on rate base of approximately 3.49 percent.

	ROR on Rate Base	Unitized ROR
Residential	2.82%	0.81
Small Commercial Single Phase	2.97%	0.81
Small Commercial Three Phase	2.84%	0.81
Commercial & Industrial Demand < 3,000kW	2.84%	0.81
Commercial & Industrial – Direct Served	177.56%	50.94
Large Commercial Existing	2.84%	0.81
Outdoor Lighting	40.58%	11.64
TOTAL	3.49%	1.00

Rate Design

Jackson Purchase proposed to increase the residential customer charge from $16.40 to $21.25. The filed COSS resulted in an estimated customer charge of $41.56,[56] revised on rebuttal to $39.81.[57] This estimated increase was a significant change from the estimated customer charge of $30.23 in Jackson Purchase's 2019 Rate Case. Jackson Purchase indicated that the cost-based customer charges for all classes, as well as the energy charges have increased, largely due to the higher revenue requirement sought in the instant case, but also due to the slight decline in customer count, and a slight increase in the residential share of peak demand since the 2019 Rate Case.[58]

The Attorney General requested that the Commission fully evaluate the proposed increase to the customer charge.[59] The Attorney General noted the Commission's past

[56] Wolfram Direct Testimony at 21.

[57] Wolfram Rebuttal Testimony, Copy_of_JPEC-COS-Revised_02-17-2022.xlsm (filed Feb. 17, 2022) (Revised COSS), Tab Summary of Rates.

[58] Jackson Purchase Energy's Response to Staff's Second Request, Item 28.

[59] Attorney General's Post Hearing Brief at 14.

decisions regarding distribution cooperatives' customer charges and the concern over revenue erosion, but argued against the 30 percent increase, given the amount of the increase and the financial means of the customers.[60] The Attorney General maintained that, if the Commission were to grant an increase, the Commission should follow the precedent of gradualism and consider ratepayer affordability.[61]

Jackson Purchase contended that the COSS results indicate that rates for residential and small commercial classes are insufficient, should be increased, and indicate that there is clear support for a fixed monthly charge of $41.56 for the residential class.[62] Jackson Purchase's witness, John Wolfram, maintained that the current charge of $16.40 per month results in under recovery of fixed costs and, because it implicates recovery of costs, increasing the customer charge is essential for Jackson Purchase's financial well-being.[63] Jackson Purchase argued that the requested incremental increase from $16.40 to $21.25 is consistent with the philosophy of rate gradualism, is not arbitrary, and closes the gap between the current rate and the cost based rate.[64]

The Commission notes that the increase in the customer charge between this and the 2019 Rate Case is also due to the increase in the customer component for Account 364, Poles, Towers and Fixtures where the Primary and Secondary Distribution Plant

---

[60] *Id*.

[61] *Id.* at 15.

[62] Jackson Purchase's Post Hearing Brief at 7 and Reply Brief at 9. The $41.56 estimation is based upon the initial filing.

[63] *Id*.

[64] Jackson Purchase's Reply Brief at 9–10.

allocation vectors increased from 0.27 in 2019 Rate Case to 0.87 in the instant case.[65] This change was the result of moving from a minimum system allocation method for Account 364, to applying the allocations associated with Account 365, Overhead Conductors to Account 364.[66] Applying the previous allocations, the customer charge decreases to just over $33.00, and applying the decisions regarding the minimum system since the 2019 Rate Case final Order and placing the allocation for Account 364 to be 100 percent demand related results in a residential customer charge of just over $30.00. Such an exercise illustrates how sensitive the distribution components are to changes in the demand and customer allocations.

The Commission notes 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 sale volumes that accompanies poor regional economics and changes in weather patterns, and the Commission consistently has been in favor of raising the customer charge in utility rate cases to reflect the fixed costs inherent in providing utility service. However, the Commission also notes that Jackson Purchase received an increase to the customer charge of $3.95 just less than three years ago. The Commission concludes that that the incremental increase in this case should not exceed the amount granted in the 2019 Rate Case, and therefore finds that proposed increase to the costumer charge to be unreasonable. Applying the same incremental increase approved in the 2019 Rate Case, the Commission finds a residential customer charge of $20.35 to be reasonable. Based upon Jackson Purchase's average monthly usage of

[65] Jackson Purchase's Response to Staff's Second Request, Item 26.

[66] *Id*.

1176 kWh, the average monthly bill for residential customers will increase by $20.24 from $134.92 to $155.16, or 15.00 percent.

Nonrecurring Charges

In recent decisions, the Commission determined that, because utility personnel are paid during normal business hours, estimated additional labor costs previously included in determining the amount of nonrecurring charges should be eliminated from the charges to avoid double recovery.[67] This is because salaries and wages incurred during normal business hours are already recovered in rates. Thus, recovering the portion of nonrecurring costs that are based on the same labor costs recovered in rates results in a double recovery. For this reason, the Commission reviewed Jackson Purchase's nonrecurring cost justification and adjusted the charges by removing field labor costs and member service representative (MSR) cost from the charges. For nonrecurring charges that occur after normal business hours the MSR labor costs were removed because the MSR labor will be performed during normal business hours.

The Commission concludes that the revised total cost of $238.30 for the After Hours Connection/Reconnection Fee, with the MSR cost removed, is not fair, just and reasonable in light of the cost justification.[68] The Commission further concludes that Connection/Reconnection Fees should reflect a blended rate for during and after hours

[67] *See* Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020); and Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020); Case No. 2020-00196, *Electronic Application of West Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020); and Case No. 2020-00195, *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment*, (Ky. PSC Dec. 30, 2020).

[68] Jackson Purchase's Response to Staff's Second Request, Item 14, page 6 of 7. Total cost of $248.19 less the MSR fee of $10.88 = $238.30.

that is cost based. Therefore, the Commission has set a unified rate of $24.00 for connection/reconnection which represents the weighted average of the test year charges.[69]

These adjustments result in the following revised nonrecurring charges Jackson Purchase should charge as well as a pro formal adjustment to other revenue of $(1,453).

	Current	Revised
Collection Fee	$ 20.00	$ 16.00
Returned Check Fee	$ 20.00	$ 5.60
Connection/Reconnection	$ 25.00	$ 24.00
Connection/Reconnection After Hours	$ 75.00	$ 24.00
Meter Test Fee	$ 35.00	$123.00
Meter Pole Perpetual Lease Fee	$ 100.00	$177.00

	Occurrences	Current Charge	Total	Revised Charge	Adjustment	Pro Forma
Collection Fee	2333	$ 20.00	$ 44,640	$ 16.00	$ (7,312)	$ 37,328
Retuirned Check Fee	10	$ 20.00	$ 195	$ 5.60	$ (139)	$ 56
Connection/Reconnection	6214	$ 25.00	$140,230	$ 24.00	$ 8,906	$ 149,136
Connection/Reconnection After Hours	236	$ 75.00	$ 10,650	$ 24.00	$ (4,986)	$ 5,664
Meter Test Fee	6	$ 35.00	$ 200	$123.00	$ 538	$ 738
Meter Pole Perpetual Lease Fee	20	$100.00	$ 2,000	$177.00	$ 1,540	$ 3,540
Total			$197,915		$ (1,453)	$ 196,462

Pole Attachment Rates

Pole attachment rates are calculated based on the formula prescribed in Administrative Case 251-42.[70] Jackson Purchase's pole attachment rates were last increased in 1982.[71] Jackson Purchase provided a revised calculation noting that the

69

	Occurrences	Current Charge	Total	Revised Charge	Adjustment	Pro Forma	% of total	weighted rev	rate
Connection/Reconnection	6214	$ 25.00	$ 140,230	$ 16.00	$ (40,806)	$ 99,424	96.3%	$149,967.23	$24.13
Connection/Reconnection After Hours	236	$ 75.00	$ 10,650	$ 238.30	$ 45,589	$ 56,239	3.7%	$ 5,695.57	$24.13
	6450		$ 150,880		$ 4,783	$ 155,663		$155,662.80	

[70] Administrative Case No. 251, *The Adoption of a Standard Methodology for Establishing Rates for CATV Pole Attachments* (Ky. PSC Sept. 17, 1982).

[71] Jackson Purchase's Response to Staff's Second Request, Item 13.

composite per-unit costs have increased.[72] The Commission is concerned that ratepayers may be subsidizing pole attachment rates, especially because the tariffed rates have not increased as Jackson Purchase's composite per-unit costs have. Therefore, the Commission finds it reasonable to increase the pole attachment charges as well as make a pro forma adjustment of $65,897 to other revenues.

Charge	Current	Revised
Pole Charge – 2 Party	$4.84	$8.41
Pole Charge – 3 Party	$4.09	$6.13
Anchor Charge – 2 Party	$5.88	$14.75
Anchor Charge – 3 Party	-	$9.73
Grounding Charge – 2 Party	$0.24	$0.22
Grounding Charge – 3 Party	$0.16	$0.14

	Occurrences	Current Charge	Total	Revised Charge	Adjustment	Pro Forma
Pole Charge - 2 Party	12791	$ 4.84	$ 61,908	$ 8.41	$ 45,664	$ 107,572
Pole Charge - 3 Party	8649	$ 4.09	$ 35,374	$ 6.13	$ 17,644	$ 53,018
Anchor Charge - 2 Party	293	$ 5.88	$ 1,723	$ 14.75	$ 2,599	$ 4,322
Anchor Charge - 3 Party		-	$ -	$ 9.73	$ -	$ -
Grounding Charge - 2 Party	364	$ 0.24	$ 87	$ 0.22	$ (7)	$ 80
Grounding Charge - 3 Party	103	$ 0.16	$ 16	$ 0.14	$ (2)	$ 14
Total			$ 99,110		$ 65,897	$ 165,007

IT IS THEREFORE ORDERED that:

1. The rates proposed by Jackson Purchase are denied.

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

3. Within 20 days of the date of entry of this Order, Jackson Purchase shall file with this Commission, using the Commission's electronic Tariff Filing System, new

[72] *Id*.

tariff sheets setting forth the rates and charges approved in this Order and reflecting their effective date and that they were authorized by this Order.

4. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ENTERED

APR 08 2022 bsb

KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:

Linda C. Bridwell

Executive Director

APPENDIX A

AN APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2021-00358 DATED APR 08 2022

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

SCHEDULE R
RESIDENTIAL

Facilities Charge per month	$ 20.35
Per kWh per month	$ 0.114635

SCHEDULE C-1
SMALL COMMERCIAL SINGLE PHASE

Facilities Charge per month	$ 20.35
Per kWh per month	$ 0.114635

SCHEDULE C-3
SMALL COMMERCIAL SINGLE PHASE

Facilities Charge per month	$ 32.27
Per kWh per month	$ 0.100551

SCHEDULE D
COMMERCIAL AND INDUSTRIAL DEMAND LESS THAN 3,000 KW

Facilities Charge per month	$	48.42
Demand Charge per kW	$	9.02
First 200 kWh per kW	$	0.062202
Next 200 kWh per kW	$	0.052104
Next 200 kWh per kW	$	0.046973
Over 600 kWh per kW	$	0.041993

SCHEDULE D-Direct
COMMERCIAL AND INDSUTRIAL DIRECT SERVED

Facilities Charge per month	$	48.42
Demand Charge per kW	$	9.02
Demand Charge Minimum per month	$	21,000.00
First 200 kWh per kW	$	0.062202
Next 200 kWh per kW	$	0.052104
Next 200 kWh per kW	$	0.046973
Over 600 kWh per kW	$	0.041993

SCHEDULE I-E
LARGE COMMERCIAL AND INDUSTRIAL - EXISTING

Facilities Charge per month	$	414.97
Demand Charge – First 3,000 kW per month	$	47,721.03
All additional kW per kW per month	$	15.91
Per kWh per month	$	0.039130

NONRECURRING CHARGES

Collection Fee	$ 16.00
Returned Check Fee	$ 5.60
Connection/Reconnection	$ 24.00
Connection/Reconnection After Hours	$ 24.00
Meter Test Fee	$123.00
Meter Pole Perpetual Lease Fee	$177.00

POLE ATTACHMENT RATES

Pole Charge – 2 Party	$ 8.41
Pole Charge – 3 Party	$ 6.13
Anchor Charge – 2 Party	$14.75
Anchor Charge – 3 Party	$ 9.73
Grounding Charge – 2 Party	$ 0.22
Grounding Charge – 3 Party	$ 0.14

APPENDIX B

AN APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2021-00358 DATED APR 08 2022

Description	Test Year Actual	Jackson Purchase Adjustments	Jackson Purchase Pro Forma TY	Commission Adjustments	Adjusted Pro Forma
Operating Revenues					
Total Sales of Electric Energy	68,120,498	(2,504,931)	65,615,567		65,615,567
Other Electric Revenue	1,307,203	20,001	1,327,204	64,444	1,391,648
Total Operating Revenue	69,427,701	(2,484,930)	66,942,771	64,444	67,007,215
Operating Expenses:					
Purchased Power	50,688,769	(2,177,317)	48,511,452		48,511,452
Distribution Operations	3,308,445	31,381	3,339,826	(209,767)	3,130,059
Distribution Maintenance	2,921,678	4,099,001	7,020,679		7,020,679
Customer Accounts	1,273,783	27,251	1,301,034		1,301,034
Customer Service	40,607	3,351	43,958		43,958
Sales Expense	3,691	-	3,691		3,691
A&G	3,237,313	(251,472)	2,985,841	2,238	2,988,079
Total O&M Expense	61,474,286	1,732,195	63,206,481	(207,529)	62,998,952
Depreciation	6,016,651	574,394	6,591,045		6,591,045
Taxes - Other	90,258	-	90,258		90,258
Interest on LTD	1,961,144	233,473	2,194,617		2,194,617
Interest - Other	233,334	(171,498)	61,836		61,836
Other Deductions	2,796	-	2,796		2,796
Total Cost of Electric Service	69,778,469	2,368,564	72,147,033	(207,529)	71,939,504
Utility Operating Margins	(350,768)	(4,853,494)	(5,204,262)	271,973	(4,932,289)
Non-Operating Margins - Interest	415,932	(1,249,488)	(833,556)	-	(833,556)
Income(Loss) from Equity Investments	-	-	-	-	-
Non-Operating Margins - Other	934,232	-	934,232	-	934,232
G&T Capital Credits	-	-	-	-	-
Other Capital Credits	179,415	-	179,415	-	179,415
Net Margins	1,178,811	(6,102,982)	(4,924,172)	271,973	(4,652,199)
Cash Receipts from Lenders	77,191		77,191		77,191
OTIER	0.86		(1.34)		(1.21)
TIER	1.60		(1.24)		(1.12)
TIER excluding GTCC	1.60		(1.24)		(1.12)
Target TIER	2.00		2.00		2.00
Margins at Target TIER	1,961,144		2,194,617		2,194,617
Revenue Requirement	71,739,613		74,341,650		74,134,121
Revenue Deficiency	782,333		7,118,789		6,846,816

*L Allyson Honaker
Goss Samford, PLLC
2365 Harrodsburg Road, Suite B325
Lexington, KENTUCKY 40504

*J. Michael West
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Angela M Goad
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*David S Samford
Goss Samford, PLLC
2365 Harrodsburg Road, Suite B325
Lexington, KENTUCKY 40504

*Jackson Purchase Energy Corporation
6525 US Highway 60 W
Paducah, KY 42001

*John Horne
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Larry Cook
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Mark David Goss
Goss Samford, PLLC
2365 Harrodsburg Road, Suite B325
Lexington, KENTUCKY 40504