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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, OCTOBER 16, 2001

APPLICATION OF

BARC ELECTRIC COOPERATIVE CASE NO. PUE000232

For a revision in retail base rates, service charges, and terms and conditions for electric service

ORDER ON RATES

On August 31, 2001, BARC Electric Cooperative ("BARC" or "the Cooperative") filed a Supplemental Motion for Reconsideration of the Final Order of BARC Electric Cooperative ("Motion") with the State Corporation Commission ("Commission") to reconsider the August 14, 2001, Final Order entered in the captioned matter. The Cooperative maintained, among other things, that when using the Staff's recommended cost of service methodologies and billing determinants and the $615,222 increase in adjusted gross annual revenue requirement accepted by the Commission, and apportioning the approved rate increase to its customer classes in the same relative percentages as originally proposed by BARC, the relationship between customer rates classes and the relative revenues recovered from each such class changes. Rates for certain classes are set slightly above the interim rates levels, while rates for other classes are reduced

to slightly below such levels. BARC asserted that, because the Commission accepted an increase in the adjusted revenue requirement of $615,222 which is higher than the increased revenue level initially requested by the Cooperative,[1] BARC did not believe that it was necessary to reallocate the increase among various classes and create the need for refunds.

BARC contended, in the alternative, that if it were allowed to make interim rates permanent in an effort to avoid the need to make refunds, based on Staff's billing determinants, the Cooperative would experience a revenue shortfall of approximately $13,328. The Cooperative proposed to recover this shortfall by adding an additional $0.00035 per kWh to the second energy block of its residential rate. BARC requested that the Commission reconsider and amend the August 14, 2001, Final Order to permit the Cooperative's interim rates to be made permanent and to allow the Cooperative to adjust its residential rates as proposed. Further, the Cooperative asked the Commission to suspend the deadlines imposed in this proceeding.

On September 4, 2001, the Commission entered an Order Granting Reconsideration for Purpose of Considering Issues Raised by Motion ("Order Granting Reconsideration") suspending

[1] In BARC's May 1, 2000, application, rates were designed to recover an increase in gross annual revenues of $815,679. Based on a change in Virginia's tax statutes, BARC implemented interim rates on January 1, 2001, that produced an increase in gross annual revenues of $610,994, based on the Cooperative's billing determinants.

the filing deadlines set forth in the August 14, 2001, Final Order. The Commission directed the Cooperative to file the rates and impact on customer classes of rates filed in conformity with the Commission's August 14, 2001, Final Order, as well as schedules showing the movement to parity achieved for each rate class, the Times Interest Earned Ratio ("TIER"), and return on rate base. The Commission also directed BARC to file rates and schedules indicating the impact on customer classes of rates using the Cooperative's proposed adjustment of $0.00035 per kWh, as well as the movements to parity achieved for each rate class, TIER, and return on rate base. These filings were to be made on or before September 7, 2001.

On September 7, 2001, BARC filed its Response of BARC to Order Granting Reconsideration ("Response"). BARC noted that it was unable to comply with the Order Granting Reconsideration and meet the filing deadline. The Cooperative further asserted that in order to provide the analysis called for in the Commission's September 4, 2001, Order Granting Reconsideration, it would have to update its Cost of Service Study completely. It contended that the class revenues in issue did not justify the expense of a complete reconstruction of the Cost of Service Study. The Cooperative requested the Commission to consider substitute schedules, appended to its Response, comparing the

impact and effect of the rates produced according to the Final Order and the Cooperative's adjusted rates.

On September 14, 2001, the Staff filed a Reply to the Response of BARC Electric Cooperative ("Reply") which included an exhibit ("Statement No. 2") setting out the rates that Staff asserts would permit the Cooperative to recover the $615,222 increase in gross annual revenue requirement authorized by the Commission. The Staff urged the Commission to adopt Staff's proposed rates because, according to Staff, they conform to the August 14, 2001, Final Order. In the alternative, Staff requested that if the Commission determined to relieve the Cooperative of a refund obligation, BARC be required to make its interim rates permanent without any further adjustment or adders.

On September 18, 2001, the Commission issued an Order Inviting Responses to Reply. That Order invited the Division of Consumer Counsel, Office of Attorney General ("Consumer Counsel") and BARC to file pleadings responsive to the Staff's Reply.

On September 25, 2001, Consumer Counsel filed a response to the Staff's Reply. Consumer Counsel requested that the Commission direct the implementation of Staff's proposed rates and make refunds, with interest, of any interim rates. Consumer Counsel contended that it would be inappropriate to apply BARC's

interim rates, which were developed using a pro forma level of billing determinants, to the Staff's present value determinants for the period 2001 through 2007. In addition, Consumer Counsel noted that BARC did not provide justification for adding $0.00035 per kWh to the second energy block of its residential rate, and that such a proposal would be inconsistent with the August 14, 2001, Final Order as the rates for certain classes would be higher than determined to be just and reasonable. Further, Consumer Counsel argued that the Cooperative bore the risk that its interim rates may be found excessive and subject to refund.

BARC also filed a response to the Staff's Reply on September 25, 2001. Among other things, the Cooperative reiterated that applying the interim rates to the methodology and billing determinants approved in the August 14, 2001, Final Order produces a revenue increase less than the amount authorized and would increase the rates for certain classes above the rates that became effective on an interim basis on January 1, 2001. BARC renewed its request that the Commission permit the interim rates to be made permanent and allow the adjustment the Cooperative proposed to the second energy block of its residential rate to permit the Cooperative to recover the full adjusted revenue requirement.

NOW THE COMMISSION, after consideration of the record herein, the Cooperative's Motion, and the responsive pleadings filed herein, is of the opinion of and finds that BARC's request that we amend our August 14, 2001, Final Order to allow the Cooperative's interim rates to be made permanent and allow the Cooperative to add $.00035 per kWh to the second energy block of its residential rates should be denied. BARC will be directed to implement rates conforming to our August 14, 2001, Final Order as proposed by Staff in its Reply filed September 14, 2001. BARC should file its revised permanent schedules of rates, fees, and charges and revised terms and conditions of service with the Division of Energy Regulation on or before November 1, 2001. Such rates will allow the Cooperative to recover the approved increase in gross annual revenues of $615,222, effective for service rendered on and after January 1, 2001, and will not cause the Cooperative to experience a revenue shortfall.

Further, we find that BARC should be required to make a refund, with interest, of all revenues collected during the period rates were in effect on an interim basis, to the extent such revenues exceed revenues which would have been produced from the rates approved herein. Section 56-582 A 3 of the Code of Virginia authorized the Cooperative to implement its rates effective on an interim basis subject to refund with interest on

January 1, 2001. When the Cooperative placed its rate in effect on an interim basis on January 1, 2001, it faced the possibility of having to recalculate its rates and make refunds once all the evidence was considered and a final order was issued.

With regard to the calculation of its refunds, BARC may determine the refunds by recalculating each bill it rendered that used, in whole or in part, the interim rates being replaced by the rates approved herein. In each instance where application of the rates being established yields a reduced bill to the customer, BARC should make a refund with interest, which may be accomplished by credit to a current customer's account or, in the case of a former customer, by check to that customer's last known address if the refund amount is $1 or more.

As an alternative to the refund methodology described in the preceding paragraph, BARC may also work with Staff to propose another method of calculating refunds with interest to customers that is less onerous than the method described above. To be acceptable, this alternative method must produce a fair allocation of the revenue differential by customer class.

Finally, we find that the bundled rates that BARC must file in accordance with the directives of this Order as well as the total purchased power cost determined in our August 14, 2001

Final Order may be considered in Case No. PUE010002, as a basis for developing unbundled rates, fees and charges.

Accordingly, IT IS ORDERED THAT:

(1) BARC's request that the Commission amend its August 14, 2001, Final Order to allow the Cooperative's interim rates to be made permanent and allow the Cooperative to add $.00035 per kWh to the second energy block of its residential rates is hereby denied.

(2) BARC shall forthwith implement rates conforming to our August 14, 2001, Final Order as proposed by Staff in its Reply filed September 14, 2001.

(3) On or before November 1, 2001, BARC shall file with the Division of Energy Regulation revised permanent schedules of rates, fees, and charges, together with revised terms and conditions of service, designed to produce the additional increase in gross revenues of $615,222 previously approved in this matter.

(4) On or before April 15, 2002, BARC shall complete the refunds, with interest as directed in Ordering Paragraphs (5) and (6) below, on all revenues collected from the application of the rates placed in effect on an interim basis for service rendered on and after January 1, 2001, to the extent such revenues exceed the revenues which would have been produced from the rates approved herein. BARC shall compute its refund of the

revenues required in the manner described on page 7, supra. If the refund is to be made in a manner other than by recalculating each bill that used, in whole or in part, the interim rates being replaced, the Staff shall provide a report to the Commission that details the method employed and states whether the method is a fair and equitable one. Such report shall be provided before any refunds are made.

(5) The refunds, directed in Ordering Paragraph (4) above, may be accomplished by credit to the appropriate customer's account for current customers (each refund category shown separately on each customer's bill). Refunds to former customers shall be made by check to the last known address of such customers when the refund amount is $1 or more. BARC may offset the credit or refund to the extent no dispute exists regarding the outstanding balances for its current customers or customers who are no longer on its system. To the extent that outstanding balances of such customers are disputed, no offset shall be permitted for the disputed portion of these balances. The Cooperative may retain refunds owed to former customers when the refund amount is less than $1. However, BARC shall prepare and maintain a list detailing each of the former accounts for which refunds are less than $1, and in the event such former customers contact the Cooperative and request refunds, such

refunds shall be made promptly. All unclaimed refunds shall be handled in accordance with § 55-210.6:2 of the Code of Virginia.

(6) Interest upon the ordered refunds shall be computed from the date payment of each monthly bill was due during the interim period until the date refunds are made at the average prime rate for each calendar quarter and this interest shall be compounded quarterly. The applicable average prime rate for each calendar quarter shall be the arithmetic mean, to the nearest one-hundredth of one percent, of the prime rate values published in the Federal Reserve Bulletin, or in the Federal Reserve's Selected Interest Rates ("Selected Interest Rates") (Statistical Release G.13), for the three months of the preceding calendar quarter.[2]

(7) On or before April 15, 2002, BARC shall file with the Division of Energy Regulation a document showing that all refunds have been lawfully made pursuant to this Order, and itemizing the costs of the refund and accounts charged. Such itemization of costs shall include, inter alia, computer costs, the personnel hours, associated salaries, and costs for verifying and correcting the refunds directed in this Order.

[2] With the issue dated January 8, 2002, Statistical Release G.13 will cease to be published. Selected Interest Rates will continue to be available in a weekly release H.15 available in print and at www.federalreserve.gov/releases/H15, or daily at www.federalreserve.gov.releases/H15/update.

(8) The bundled rates that BARC files in accordance with the directives of this Order, together with the total purchased power cost determined in our August 14, 2001, Final Order, may be considered in Case No. PUE010002 as a basis for developing unbundled rates, fees and charges in that proceeding.

(9) There being nothing further to be done herein, this matter shall be dismissed from the Commission's docket of active proceedings, and the papers filed herein shall be placed in the Commission's file for ended causes.