COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF TAYLOR COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION FOR A GENERAL ADJUSTMENT OF RATES	))))	CASE NO. 2023-00147

O R D E R

On June 6, 2023, Taylor County Rural Electric Cooperative Corporation (Taylor RECC) filed an application seeking approval for a general rate adjustment. Taylor RECC proposed to increase base rates by $6,377,262, which represents a 12.68[1] percent increase.[2] By Order entered June 15, 2023, the proposed effective date was suspended for five months, up to and including December 6, 2023. Taylor RECC stated the main reasons for the requested rate increase were the substantial increase in costs for essential materials, technology, and labor.[3]

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. Taylor RECC responded to multiple rounds of discovery,[4] and both parties filed direct and

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[1] The application stated that Taylor RECC was requesting a 12.68 percent increase; however, Exhibit JW-2 indicated that the utility is requesting a 14.2 percent increase. Exhibit JW-9 reflects a 12.68 percent requested increase in rates.

[2] Application at unnumbered page 3.

[3] Application at unnumbered page 6.

[4] Taylor RECC's Response to Commission Staff's First Request for Information (Staff's First Request) (filed June 19, 2023); Taylor RECC's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed July 19, 2023); Taylor RECC's Response to the Attorney General's First Request for Information (Attorney General's First Request) (filed July 19, 2023); Taylor

rebuttal testimony. On October 26, 2023, a formal hearing was held. Taylor RECC filed responses to post-hearing information requests on November 9, 2023. Taylor RECC and the Attorney General filed their respective initial briefs on November 29, 2023, and response briefs on December 13, 2023. On February 22, 2024, Taylor RECC filed a notice to implement rates as proposed in its application.[5] On February 29, 2024, the Commission ordered Taylor RECC to maintain its records in such a manner to allow the Commission, its customers, or any other party to calculate a refund.[6] This matter now stands submitted for a decision.

BACKGROUND

Taylor RECC is a not-for-profit, member-owned rural electric distribution cooperative organized under KRS Chapter 279. Taylor RECC is headquartered in Campbellsville, Kentucky, and distributes retail electric power to 27,700 member consumers in Adair, Casey, Cumberland, Green, Hart, Marion, Metcalfe, Russell, and Taylor counties, Kentucky.[7] Taylor RECC owns approximately 3,300 circuit miles of distribution lines connecting 16 substations.[8] Taylor RECC purchases power from East

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RECC's Response to Commission Staff's Third Request for Information (Staff's Third Request) (filed Aug. 11, 2023); Taylor RECC's Response to the Attorney General's Second Request for Information (Attorney General's Third Request) (filed Aug. 11, 2023); Taylor RECC's Response to Commission Staff's Fourth Request for Information (Staff's Fourth Request) (filed Sept. 1, 2023).

[5] Taylor RECC's Notice to Implement Rates (filed Feb. 22, 2024).

[6] Order (Ky. PSC Feb. 29, 2024).

[7] Application at unnumbered page 1.

[8] Application at unnumbered page 1.

Kentucky Power Cooperative, Inc. (EKPC). Taylor RECC's last general rate adjustment was approved on March 26, 2013.[9]

LEGAL STANDARD

Taylor RECC filed the application for an adjustment of rates pursuant to KRS 278.180, KRS 278.190, and 807 KAR 5:001. The Commission's standard of review for a utility's request for a rate increase is whether the proposed rates are "fair, just and reasonable."[10] Taylor RECC bears the burden of proof to show that the proposed rate is fair, just and reasonable under the requirements of KRS 278.190(3).

TEST PERIOD

Taylor RECC proposed the 12-month period ending December 31, 2021, as the test period for determining the reasonableness of its proposed rates.[11] The Commission concludes that it is reasonable, as discussed below, to use the 12-month period ending December 31, 2021, as the test period. 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, 2021, is a reasonable period to use for setting rates in this matter. In using this historic test period, the Commission gave full consideration to appropriate known and measurable changes.[12]

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[9] Case No. 2012-00023*, Application of Taylor County Rural Electric Cooperative Corporation for an Adjustment of Rates* (Ky. PSC Mar. 26, 2013).

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

[11] Application at unnumbered page 3.

[12] 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.").

REVENUE REQUIREMENT

Revenues and Expenses

Directors' Expenses. Taylor RECC proposed an adjustment to remove $23,480 from its board of directors' expenses to remove per diems for industry association meetings, remove the difference between health insurance premiums and monthly retainers, and normalize per diems for board meetings.[13] Taylor RECC stated that it stopped providing health insurance premiums for directors and instead provides a monthly retainer of $1,000.[14]

The Attorney General proposed an adjustment to remove $36,400 in board meeting per diems and remove $84,000 for the retainer fees that replaced health insurance premiums, consistent with Taylor RECC's previous rate case.[15]

The Commission will partially accept the Attorney General's proposed adjustment. The Commission finds that board meeting per diems are appropriate for recovery in rates, but the retainer fees designed to replace health insurance premiums are not. The per diems excluded in Taylor RECC's last rate case were for industry association meetings, not board meetings.[16] The Commission has historically removed health insurance premiums and a retainer intended to replace the insurance premiums is not fundamentally different that directly incurring the insurance expense. Therefore, the Commission will

[13] Application, Direct Testimony of John Wolfram (Wolfram Direct Testimony) (filed June 6, 2023), Exhibit JW-2, Schedule 1.09.

[14] Taylor RECC's Response to Staff's Second Request, Item 17b.

[15] Direct Testimony of John Defever (Defever Direct Testimony) at 10. *See also* Case 2012-00023, April 24, 2012 Order.

[16] Case No. 2012-00023, Taylor RECC's Response to Commission Staffs Second Request for Information (filed Oct. 4, 2012), Item 35d.

accept Taylor RECC's adjustment to test-year directors' expense, and further reduce Taylor RECC's proposed directors' expenses by $84,000.

Salaries and Wages Expense. Taylor RECC proposed an adjustment to normalize wages and salaries based on 2022 rates at 2,080 straight-time hours and actual 2021 overtime hours, including employees hired after the end of the test year.[17] The proposed adjustment increased expensed test-year wages of $2,230,366 by $584,275, or 26 percent.[18] Taylor RECC executed a new union contract, which covers 70 percent of its employees, in 2020 for five years.[19] The new contract increased wages 5 percent, above the contractual 2.5 percent increase and adjusted benefits.[20]

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."

The Attorney General did not agree with the salary and wage adjustment proposed by Taylor RECC and proposed to remove awards costs of $10,915, arguing that the adjustments provide little or no benefit to ratepayers, and Taylor RECC agreed that the amount should be removed.[21]

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[17] Wolfram Direct Testimony, Exhibit JW-2, Schedule 1.10.

[18] Wolfram Direct Testimony, Exhibit JW-2 at 15.

[19] Direct Testimony of Jeffery Williams (Williams Direct Testimony) at 5.

[20] Application at 5.

[21] Defever Direct Testimony at 8 and 9; Rebuttal Testimony of John Wolfram (Wolfram Rebuttal Testimony) at 4 and 5.

The Commission finds that the Attorney General's recommendation to remove $10,915 in awards costs from salaries and wages expense should be accepted because the awards do not benefit ratepayers. Taylor RECC agreed that the inclusion of the awards was inadvertent and could not be recovered in base rates. The Commission has a history of excluding awards.[22]

Health Insurance Expense and 401k Expense. Taylor RECC proposed an adjustment to reduce health insurance expense by $32,758.[23] Taylor RECC evaluated and made several modifications to pay and benefits in 2022 to improve employee retention. The union contract was amended to change health insurance plans and to require employees to contribute to the coverage beginning in 2022, both of which resulted in a reduced cost on a per employee basis.[24]

The Attorney General recommended that, consistent with the final Order in Case No. 2021-00407,[25] the Commission should adjust the insurance expense using the Bureau of Labor Statistics (BLS) average for employer insurance contribution.[26] According to the Attorney General, if Taylor RECC adjusts this expense, it would result in a pro forma reduction of $262,274.[27] The Attorney General also pointed out that Taylor

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[22] Case No. 2003-00165, *Application of Kenergy Corporation for Review and Approval of Existing Rates* (Ky. PSC Apr. 22, 2004) Order; Case No. 2014-00159, *Application of Cumberland Valley Electric, Inc. for an Adjustment of Rates* (Ky. PSC Jan. 16, 2015), Order; and Case No. 2004-00067, *Application of Delta Natural Gas Company, Inc. for an Adjustment of Rates* (Ky. PSC Dec. 21, 2004), Order.

[23] Wolfram Direct Testimony, Exhibit JW-2 at 2.

[24] Williams Direct Testimony at 6.

[25] Case No. 2021-00407, *Electronic Application of South Kentucky Rural Electric Cooperative Corporation for a General Adjustment of Rates, Approval of Depreciation Study, and Other General Relief* (Ky. PSC Jun. 30, 2022).

[26] Defever Direct Testimony at 10.

[27] Defever Direct Testimony at 10.

RECC's revenue requirement calculation understated the health insurance adjustment provided in workpapers by $15,615.[28]

Taylor RECC proposed an adjustment to increase the test-year 401k contribution amount by $183,538 to account for increased contribution rates from 10 percent of total pay including overtime in 2021 to 16 percent of regular pay not including overtime in 2023.[29] Taylor RECC does not provide a separate pension plan.[30]

The Attorney General stated that Taylor RECC did not provide any support for the contribution increase and as such, the Commission should not accept the recommendation.[31] According to the Attorney General, when asked how Taylor RECC determined a 16 percent increase was appropriate, Taylor RECC could not provide a sufficient explanation and the claim of employee retention was not supported by the evidence.[32]

The Commission finds that allowing Taylor RECC to recover costs that are significantly higher than the test-year but also demonstratively necessary for providing service, much like right-of-way maintenance, is reasonable. The Commission accepts Taylor RECC's proposed health insurance decrease of $17,143[33] and its proposed 401k increase of $301,105. The Commission has generally avoided adjusting benefits that are provided under union contracts, given the arms-length bargaining that lead to them.

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[28] Defever Direct Testimony at 11.

[29] Wolfram Direct Testimony, Exhibit JW-2 at 4, Schedule 1.11.

[30] Wolfram Direct Testimony, Exhibit JW-2 at 16.

[31] Defever Direct Testimony at 16.

[32] Defever Direct Testimony at 16–17.

[33] Wolfram Direct Testimony, Exhibit JW-2 at 4, Schedule 1.12.

During the hearing, Taylor RECC provided testimony regarding employee retention.[34] Taylor RECC's CEO Jeff Williams testified that several highly trained linemen employees had left Taylor RECC, citing salary and benefit deficiencies.[35] Mr. Williams further testified the utility had been able to re-hire most of these employees since the signing of the union contract.[36] The Commission finds the testimony about the utility's hiring troubles, and retention problems, particularly convincing, enough so that no further adjustment is necessary in this regard.

Depreciation Expense. Taylor RECC did not propose any changes to the depreciation rates.[37] In its last rate case, Taylor RECC was ordered to perform a depreciation study within five years from the date of the final Order, or in connection with the filing of its next rate case, whichever is earlier.[38] Taylor RECC performed a depreciation study in 2022 stating that it did so as required in Case No. 2012-00023.[39] Taylor RECC did not perform the depreciation study in the timeframe directed in Case No. 2012-00023. Taylor RECC admitted that it had not been using all the approved depreciation rates from the 2012 case but could not provide a reason why.[40]

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[34] Hearing Video Transcript of the October 26, 2023 Hearing, testimony of Jeff Williams (Williams HVT) at 10:06–10:11.

[35] Williams HVT at 10:06.

[36] Williams HVT at 10:08.

[37] Application, Exhibit 20.

[38] Case No. 2012-00023, Mar. 26, 2013 final Order, ordering paragraph 4.

[39] Application, Exhibit 20.

[40] Application, Exhibit 20.

Taylor RECC proposed an adjustment of $461,018 to the depreciation expense, using a period that ends December 2022.[41]

The Attorney General stated that the depreciation expense adjustment should be made based on the test year of 2021.[42]

The Commission finds that the adjustment is acceptable because, even though it is based on 2022, after the test year, it is known and measurable. However, the Commission takes issue with Taylor RECC's implication that the failure to use the appropriate depreciation rates is the Commission's fault.[43] If Taylor RECC did not understand the depreciation rates approved by the Commission, it should have filed a request for rehearing to clarify the correct rates at that time. The Commission also notes that Taylor RECC waited over ten years to file a general rate case and even though it undertook a depreciation study in 2022, did not ask to clarify or revise depreciation rates in this case.

Interest Expense. Taylor RECC proposed to normalize its interest expense based on 2022.[44] The Attorney General did not oppose this adjustment.

The Commission finds that the adjustment is acceptable because, even though it is based on 2022, after the test year, it is known and measurable.

[41] Wolfram Direct Testimony, Exhibit JW-2 at 8.

[42] Defever Direct Testimony at 11.

[43] Taylor RECC's Response to the Attorney General's First Request, Item 53.

[44] Wolfram Direct Testimony, Exhibit JW-2 at 4, Schedule 1.03.

Legal Expense. Taylor RECC proposed an adjusted test-year legal expense of $65,026.[45] Taylor RECC stated that the expense was due, in part, to union negotiations.[46]

The Attorney General provided a five-year comparison of legal expense for Taylor RECC, noting that the expense was abnormally high in the 2021 test year.[47] The Attorney General recommended that the Commission approve a five-year average amount of $43,078.[48]

The Commission finds that the Attorney General's recommendation should be accepted. As noted, Taylor RECC stated that the increased legal expense for the test year was related to union negotiations. The Commission finds that, by averaging the expense over a five-year period, the calculation results in a normalized long-term recurring expense amount, reflecting that the utility does not expect to incur this expense each year. This results in a reduction in the test-year legal expenses of $21,948.

Right-of-Way. Taylor RECC proposed an adjustment to increase right-of-way (ROW) clearing expenses by $3,279,658, or a 312 percent increase.[49] Taylor RECC stated that prior to 2022, it had only been clearing hot spots and new services.[50] Taylor RECC stated that the lack of ROW clearing was a cost containment measure.[51] In 2022,

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[45] Taylor RECC's Response to Attorney General's First Request, Item 91, AG_Request_91_Legal_Expense.xlsx

[46] Taylor RECC's Response to Attorney General's Second Request for Information (filed Aug. 11, 2024), Item 55.

[47] Defever Direct Testimony at 12.

[48] Defever Direct Testimony at 13.

[49] Wolfram Direct Testimony, Exhibit JW-2, Schedule 1.05.

[50] Williams Direct Testimony at 4.

[51] Williams Direct Testimony at 5.

Taylor RECC issued an RFP for vegetation management contractors.[52] Taylor RECC stated that it needed to trim approximately 561 miles of line per year to clear its system every five years in order to maintain its ROW.[53]

The Attorney General recommended rejecting the requested ROW adjustment.[54] The Attorney General argued that Taylor RECC intentionally underfunded ROW, requested a significantly higher amount than in any prior case (over $2 million more), and there is no requirement funds be used for ROW.[55] The Attorney General recommended granting ROW based on average of funds spent from years 2021–2023.[56] This results in a reduction of $2,317,454 to Taylor RECC's pro forma cost of $4,330,556.[57] The Attorney General also recommended recording a regulatory liability for amounts not expended on ROW clearing and requiring Taylor RECC to pursue regional bids with other cooperatives to lower costs going forward.[58]

The Commission finds that, based upon the case record regarding ROW management costs, the adjustment proposed by Taylor RECC is reasonable and should be accepted because it reflects the actual costs of ROW management expected. However, the Commission places Taylor RECC on notice that it cannot continue in its past approach to ROW management. In finding the proposed ROW management

[52] Williams Direct Testimony at 4.

[53] Williams Direct Testimony at 8.

[54] Defever Direct Testimony at 7.

[55] Defever Direct Testimony at 5–6.

[56] Defever Direct Testimony at 7.

[57] Defever Direct Testimony at 7.

[58] Defever Direct Testimony at 7.

expense reasonable, the Commission is not excusing Taylor RECC's past decisions. The Commission strongly encourages Taylor RECC to take significant and meaningful 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 and unreasonable. In any future rate case, whether a streamlined case or a general rate adjustment case, Taylor RECC should provide, in specific detail, what actions it has taken to address the ROW management expenses. Taylor RECC will also be expected to demonstrate marked progress in addressing the past management's inadequacies in ROW management.

GPS System Project. Taylor RECC included expenses for $24,600 of preliminary work for a GPS system project in the test year.[59] The Attorney General noted that this was a nonrecurring expense that should be removed from the proposed revenue requirement.[60]

The Commission finds that, based upon the case record, the GPS system project expense of $24,600 in the test year is nonrecurring and accepts the recommendation of the Attorney General. This results in a reduction in the test-year expenses of $24,600.

Meter Testing Program Expense. In 2021, the Commission approved a Sample Meter Testing Program for Taylor RECC.[61] The Attorney General recommended that the test-year revenue requirement be decreased to remove the consulting fee portion of meter sampling costs as well as reduce the meter testing expense to 1,000 meters in

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[59] Taylor RECC's Response to the Attorney General's First Request, Item 93; Taylor RECC's Response to the Attorney General's Second Request, Item 54.

[60] Defever Direct Testimony at 13–14.

[61] Defever Direct Testimony at 14.

accordance with the approved program.[62] Taylor RECC estimated annual savings of $86,483 when it requested the sample meter testing.[63] Taylor RECC recommended that the Attorney General's adjustment be accepted.[64]

The Commission finds that the Attorney General's proposed adjustment should be accepted. The Commission finds that, based upon the case record, the $3,150[65] of consulting fees for the Meter Testing Program from the test year should be removed and the meter testing expenses should be reduced to reflect the cost savings from the Sample Meter Testing Program provided by Taylor RECC. This results in a reduction in the test-year expenses of $89,613.[66]

Rate Case Expense. Taylor RECC proposed to increase its test-year expenses by $53,333[67] based on a three-year amortization of estimated rate case expenses of $160,000.[68] On December 13, 2023, Taylor RECC filed an update that stated it had expended $140,314 for rate case expenses through November 30, 2023, for legal services and consultants' fees for Taylor RECC's to include in revenue requirement and rate design.[69]

[62] Defever Direct Testimony at 15.

[63] Defever Direct Testimony at 15.

[64] Wolfram Rebuttal Testimony at 9.

[65] Taylor RECC's Response to the Attorney General's First Request, Item 130(b).

[66] $86,483 + $3,150 = $89,613.

[67] Application, Exhibit JW-2 at 20.

[68] Application, Exhibit JW-2 at 2.

[69] Rate Case Expense Through October 30, 2023 Update (filed Dec. 13, 2023).

The Attorney General recommended a six-year amortization period for the rate case expense recovery.[70] The Attorney General did not object to a specific amount for rate expense.

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 Taylor RECC's November 18, 2023, filing fairly represented the total costs to prepare and fully litigate this proceeding. Therefore, the Commission finds that rate case expense should be increased to $140,314 amortized over four years, to reflect the actual rate case expenses. The Commission believes that Taylor RECC will find it necessary to file another rate case application prior to the six years recommended by the Attorney General, either as a base rate case or through a streamlined process. As such, the Commission believes that an amortization period of four years is an appropriate compromise and will allow for a smaller annual impact to the customer. This adjustment results in a test-year amortization expense of $35,078, which reduces test-year expenses by $12,677.

Nonrecurring Charges. Taylor RECC did not propose any changes to its nonrecurring charges listed in its tariff.[71] Taylor RECC provided cost justification information and an itemized breakdown of each charge.[72]

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[70] Defever Direct Testimony at 18.

[71] The nonrecurring charges were set in Case No. 2012-00023, Mar. 26, 2013 Order, Appendix.

[72] Taylor RECC's Response to Staff's Post-Hearing Request, Item 1.

In accordance with recent Commission precedent,[73] the Commission has reviewed the nonrecurring charges. The Commission found that because personnel are currently paid during normal business hours and the labor costs are recovered in rates, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated.

The following nonrecurring charges listed are the current tariff amounts and the revised amounts after the labor expense was removed.

Nonrecurring Charge	Current Tariff Amount	Revised Amount
Returned Check Charge	$25.00	$ 0.00
Meter Test	$40.00	$ 6.00
Meter Read	$35.00	$ 6.00
Termination/Field Connection	$35.00	$ 6.00
Reconnection Charge	$50.00	$ 6.00
Reconnection Charge (After hours)	$90.00	$89.00
Service Investigation	$45.00	$ 6.00
Service Investigation (After Hours)	$90.00	$89.00

<u>Times Interest Earned Ratio (TIER) Calculation</u>

In its application, Taylor RECC calculated target margins at a 2.00 Times Interest Earned Ratio (TIER) and a 1.85 Operating Times Interest Earned Ratio (OTIER).[74] Taylor RECC's proposed increase was based on a 1.85 OTIER.[75]

[73] Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020); Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020); and 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).

[74] Wolfram Direct Testimony, Exhibit JW-2 at 1.

[75] Wolfram Direct Testimony at 8.

The Attorney General recommended that the non-utility margins be included in the revenue requirement.[76]

The Commission finds that a 2.00 TIER is more appropriate and consistent with precedent.[77] If the Commission were to authorize a TIER lower than 2.00, Taylor RECC will have less cash working capital, and specifically on its newer, lower interest indebtedness, which could impair Taylor RECC'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, Taylor RECC's cash flow and operating margin would be reduced below a reasonable level.

Revenue Requirement Summary

The pro forma adjustments and revenue requirement calculation are found in Appendix A to this Order. The effects of the adjustments on Taylor RECC's net income results in utility operating margins of $1,346,559 based upon a total revenue of $53,105,744, a total cost of electric service of $51,759,184 and resulting net margins of $1,469,296. The resulting credit metrics are a 2.0 TIER, a 1.94 OTIER, and a debt service

[76] Attorney General's Brief at 17.

[77] Case No. 2023-00158, *Electronic Application of Farmers Rural Electric Cooperative Corporation for a General Adjustment of Rates Pursuant to Streamlined Procedure Pilot Program Established in Case No. 2018-00407* (Ky. PSC Oct. 3, 2023); and Case No. 2023-00213, *Electronic Application of Shelby Energy Cooperative, Inc. for a General Adjustment of Rates Pursuant to Streamlined Procedure Pilot Program Established in Case No. 2018-00407* (Ky. PSC Oct. 17, 2023).

coverage ratio of 1.92 all of which will give Taylor RECC a reasonable margin to achieve its debt covenants.

REVENUE ALLOCATION AND RATE DESIGN

Cost of Service Study (COSS)

Taylor RECC filed a fully allocated COSS based upon the 12 Coincident Peak (12CP) methodology in order to determine the cost to serve each customer class. With the 12CP methodology, Taylor RECC explained that demand-related costs are allocated on the basis of the demand for each rate class at the time of the wholesale system peak for each of the twelve months, and customer-related costs are allocated on the basis of the average number of customers served in each rate class during the test year.[78]

For the distribution components, the zero intercept was used for the overhead conductors, underground conductors and devices, and transformers.[79] The Commission accepts Taylor RECC's proposal to use the 12CP method as a guide to determine revenue allocation. However, the Commission does have concerns about the demand/customer expense allocations for the distribution plant classifications. For underground conductors and devices (Account 367), Taylor RECC relied on an allocation factor of 90.71 percent customer related and 9.29 percent demand related. The Commission notes that these are extremely high percentages of operating expenses being allocated as customer related. While the Commission has relied on the zero-intercept study in previous rate cases, the Commission also has the determination on whether the cost allocation factors, and methodology are reasonable for Taylor RECC

[78] Wolfram Direct Testimony at 19.

[79] Wolfram Direct Testimony at 17–18.

and its customers. The Commission will accept Taylor RECC's zero-intercept study as a guide in this instance but expects Taylor RECC to file additional testimony and evidence in its next base rate case to justify how allocation factors that high are reasonable for its customers and also providing evidence that it evaluated other cost-effective methodologies.

The COSS was used to determine Taylor RECC's overall rate of return on rate base and the relative rates of return from each rate class and was used as a guide in the proposed rate design.[80] Having reviewed Taylor RECC's COSS, the Commission finds it to be acceptable for use as a guide in allocating the revenue increase granted herein.

Revenue Allocation and Rate Design

Based on the results of the COSS, the current rates illustrate a certain degree of subsidization between the rate classes, and, at current rates, Taylor RECC stated that there is an imbalance to the current rate structure.[81] Taylor RECC explained that the residential and small commercial classes, specifically, are contributing less than the cost to serve.[82] Taylor RECC explained that the need to increase rates is limited to the Residential and Small General Purpose service classes because those are the only rate classes being subsidized by the collective other rate classes.[83] In its rebuttal testimony, Taylor RECC filed a revised revenue increase along with revised rates. Taylor RECC's

[80] Wolfram Direct Testimony at 20–21.

[81] Wolfram Direct Testimony at 22.

[82] Wolfram Direct Testimony at 22.

[83] Wolfram Direct Testimony at 22–23.

revised Revenue Allocation with the rate of return (ROR) after the rate revision is illustrated below:[84]

Rate	Revenue Increase	Return on Rate Base	Return After Rate Revision	Unitized Return After Rate Revision
Residential Farm & Home	$5,906,397	(8.33%)	2.70%	0.67
Residential Marketing Rate (ETS)	1,410	(1.68%)	6.80%	(1.41)
General Purpose Part 1 < 50 KVA	225,191	(0.79%)	3.60%	0.99
General Purpose Part 2 > 50 KVA	-	14.46%	14.10%	3.08
Large Industrial B	-	21.66%	21.30%	4.68
Lighting	-	6.94%	6.50%	1.22
Special Contract	-	N/A	N/A	N/A
Total	$6,133,136	(5.38%)	4.30%	1.00

Taylor RECC asserted that the COSS supported a fixed monthly charge of $30.79 for the residential class and that the customer charge should be increased from $10.22 to $16.84, so that the increase would reduce, but not eliminate, the gap between current rates and cost-based rates.[85] Additionally, Taylor RECC proposed to increase the energy charge from $0.081230 per kWh to $0.093771 per kWh.[86] Taylor RECC illustrated that an average usage residential customer using 1,113 kWh represents an increase of 19.44

[84] TCRECC-COS-2021-REV-091523.xlsx, Summary of Returns tab and TCRECC-Pres-Prop-Rates-2021-REV-091523.xlsx, Present and Proposed Rates tab.

[85] Wolfram Direct Testimony at 24.

[86] Wolfram Rebuttal Testimony at 11.

percent.[87] Additionally, Taylor RECC explained that the customer charge remaining too low is a significant issue because the current rate structure places too little recovery of fixed costs in the customer charge resulting in significant under-recovery of fixed costs; particularly when members embrace conservation or energy efficiency or otherwise reduce overall consumption.[88] Taylor RECC stated that the proposed $16.84 customer charge will move approximately 33 percent of the way toward cost-based rates and that this movement is consistent with the ratemaking principle of gradualism.[89]

Taylor RECC explained that increasing the customer charge for the Residential Farm & Home also affected the customer charges for the Residential Marketing Rate and the General Purpose Part 1 < 50 KVA but notes that both of those customer charges are still lower than the cost-based charges from the COSS.[90] Taylor RECC's proposed customer charge for the General Purpose Part 1 < 50 KVA increased from $10.40 per month to $17.02 per month while also decreasing the energy charge from $0.081400 per kWh to $0.081231 per kWh.

The Attorney General argued in its post-hearing brief that, if the Commission were to grant Taylor RECC's requested increased $16.84 residential customer charge, the increase should be implemented in a two-phased approach and that the first phase consist of a $13.53 customer charge and the second phase consist of the $16.84 customer charge.[91] The Attorney General explained that Taylor RECC's proposed 64.775

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[87] Wolfram Direct Testimony at 25.

[88] Wolfram Direct Testimony at 22.

[89] Wolfram Direct Testimony at 24–25.

[90] Wolfram Direct Testimony at 24–25.

[91] Attorney General Post-Hearing Brief at 6.

percent increase to the residential customer charge, and an increased average electric bill for residential customers of $20.58 per month violates gradualism, will hinder residential customers' ability to control their monthly electric bills, and pose a financial hardship on those customers already struggling to make ends meet.[92] The Attorney General noted that the average poverty rate in Taylor RECC's service territory is 20.8 percent, with the highest poverty rate of 27 percent in Russell County and the lowest of 15.8 percent in Marion County.[93]

Additionally, the Attorney General expressed concern that Taylor RECC's proposed monthly customer charge for the residential class is only $0.18 less than the proposed customer charge for the General Purpose Service, Part 1 class.[94] The Attorney General also noted that the proposed energy charge is significantly higher for the Residential class than the General Purpose Service, Part 1 customer class, and this leads to an inequitable result.[95]

The Commission gives substantial weight to the evidence from the COSS that indicates other classes are earning considerably more than the residential class relative to their cost of service. The Commission acknowledges, specifically, the General Purpose Part 2 > 50 KVA and the Large Industrial Class B have relatively high RORs while the Residential and Small General Purpose classes currently have negative RORs.

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[92] Attorney General Post-Hearing Brief at 5–6.

[93] Attorney General Post-Hearing Brief at 5.

[94] Attorney General Post-Hearing Brief at 7.

[95] Attorney General Post-Hearing Brief at 7.

Therefore, the Commission agrees with Taylor RECC in that any increase should only be applied to the Residential and Small General Purpose classes. The Commission also acknowledges the Attorney General's arguments regarding Taylor RECC's proposed 64.775 percent increase to the residential customer charge. The Commission must weigh these factors and strike a balance between the customers' financial interest and the utility's ability to provide adequate, reliable service. The Commission notes that, as demonstrated above, the Residential class currently has a negative 8.83 percent ROR. Therefore, placing a substantial amount of the revenue increase on the energy charge without considering Taylor RECC's ability to recover its fixed costs could potentially impact its ability to recover its required revenue and could also make the utilities' file for an additional rate case. Additionally, if Taylor RECC did not lower customer usage behavior and the residential customers were to be charged at a more substantial energy charge, then the average bill effect would be more impactful than approximately $20. The Commission notes that Taylor RECC's Large Commercial and Large Industrial classes already have a high ROR and any increase to them would result in additional subsidization, which would not result in fair, just and reasonable rates to those classes. Taylor RECC's Residential class compromises approximately 62.89 percent of the total revenue impact and as such, has the largest impact on Taylor RECC's energy demand and financial health. The Commission would be remiss in not addressing both class subsidization as well as fixed cost recovery.

Therefore, based upon the Commission-approved revenue increase of $6,167,450 the Commission finds the allocation of proposed revenue increase to the classes of service is reasonable. The Commission notes that it has consistently been in favor of raising the customer charge in utility rate cases to better reflect the fixed costs inherent in providing utility service. However, the Commission is also in favor of the principal of gradualism in ratemaking, which mitigates the financial impact of rate increases on customers. Therefore, the Commission finds that Taylor RECC's residential customer charge should increase from $10.22 to $17.01, which is 33 percent toward the COSS rate. By increasing the customer charge $6.79, it allows Taylor RECC to recover an additional $1,948,504 in additional fixed revenue and also assists in reducing the impact to the energy charge. Utilizing the Commission's revenue increase of $6,167,450, for a residential customer with an average monthly usage of 1,113 kWh, the average bill increases by $19.70, or 19.58 percent, from $100.62 to $120.32.

The Commission also agrees with the Attorney General's arguments that the General Purpose Part 1 < 50 KVA's customer charge is only $0.18 higher than the Residential classes and should be increased. The Commission notes that the COSS supported a $31.01 customer charge for the General Purpose Part 1 < 50 KVA's class. Therefore, the Commission will increase the General Purpose Part 1 < 50 KVA's customer charge from $10.40 to $25.00 to further spread the cost difference between the classes and allowing Taylor RECC to recover an additional $512,197 in fixed revenue. Additionally, the Commission notes that before this rate increase, the General Purpose Part 1 < 50 KVA's energy charge was higher than the Residential classes. The Commission does not support a rate design in which a small single-phase commercial class pays a monthly energy charge that is higher than that charged to the residential class. Therefore, the Commission will not increase the energy charge for the General Purpose Part 1 < 50 KVA.

Additionally, when evaluating the rate sheet and revenue allocation filed by Taylor RECC, the Commission recognized that the Large Industrial class customer charge and energy charge were equal to the General Purpose Part 2 > 50 KVA rates, but the demand charge was correctly referenced.[96] Therefore, the Commission changed the rates to the Large Industrial rate that was in Taylor RECC's tariff filing and in the rate sheet.[97] After correcting the rates, the Large Industrial test-year revenue increased from $2,186,290 to $2,196,156, and the present year revenue decreased from $2,248,295 to $2,060,748. This resulted in an overall decrease of $135,407 from the test-year revenue to the present-year revenue. The Commission notes that Taylor RECC did not specify that its Large Industrial customers were being charged at a different rate and therefore assumed that this was a typographical error. However, as discussed above, the Commission will not place any increase to the Large Industrial class considering its ROR is already significantly above the other classes.

Other Issues

Leases and Lines of Credit.

KRS 278.300[98] sets forth the requirements, conditions, and exceptions for a utility issuing indebtedness. During the processing of this case, Taylor RECC provided

[96] In the B1 tab, the customer charge and energy charge were referenced to the present and proposed rate tab and equaled to the General Purpose Part 2 > 50 KVA's present customer charge of $51.79 and energy charge of $0.06011 per kWh.

[97] Large Industrial customer charge is $1,275.00 and the energy charge is $0.050940 per kWh.

[98] KRS 278.300(1) states, "No utility shall issue any securities or evidences of indebtedness, or assume any obligation or liability in respect to the securities or evidences of indebtedness of any other person until it has been authorized so to do by order of the commission." KRS 278.300(8) states, "This section does not apply to notes issued by a utility, for proper purposes and not in violation of law, that are payable at periods of not more than two (2) years from the date thereof, or to like notes, payable at a period of not more than two (2) years from date thereof, that are issued to pay or refund in whole or in part any

information related to a line of credit as well as several leases.[99] Based on a review of the line of credit records, the Commission does not believe that Taylor RECC has violated KRS 278.300; however, based on the length of the ongoing, renewable nature of this loan, the Commission is concerned that Taylor RECC may be issuing indebtedness in a manner to intentionally avoid Commission oversight. The Commission cautions Taylor RECC to seek legal counsel when issuing indebtedness of any sort, including the leases. As noted in several cases,[100] leases may require Commission approval, and Taylor RECC should seek legal counsel before entering into those agreements.

IT IS THEREFORE ORDERED that:

1. The rates proposed by Taylor RECC are denied.

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

3. Taylor RECC shall follow the depreciation rates approved by the Commission in Case No. 2012-00023.

4. Within 20 days of the date of service of this Order, Taylor RECC shall file with the Commission, using the Commission's Electronic Tariff Filing System, new tariff

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such notes, or to renewals of such notes from time to time, not exceeding in the aggregate six (6) years from the date of the issue of the original notes so renewed or refunded."

[99] Taylor RECC's Response to Staff's Post-Hearing Request, Item 6b and 6d. Taylor RECC's Response to Staff's Post-Hearing Request, Item 7.

[100] Case No. 2022-00252, *Electronic Application of Rowan Water, Inc. for an Alternate Rate Adjustment and an Investigation into Rowan Water, Inc. and Its Individual Directors, Larry Johnson, Randall Cox, Mike Collins, Enoch Blair, and Its Manager, Jerry Patrick, for Allegedly Failing to Comply with KRS 278.300 and a Commission Order* (Ky. PSC Oct. 17, 2023); and Case No. 2023-00233, *Electronic Cumberland County Water District, Its Manager, Matthew Dyer, and Its Individual Commissioners, Troy Norris, Eric Carver, Sandy Heineman, Jay Cary, and Mark Vibbert Alleged Failure to Comply with KRS 278.300* (Ky. PSC Feb. 21, 2024).

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

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

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PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ENTERED

APR 05 2024 bsb

KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00147 DATED APR 05 2024

	Taylor RECC	Final
Revenues		
Fuel Adjustment Clause	1,856,811	1,856,811
Environmental Surcharge	(5,909,710)	(5,909,710)
Other Revenues	-	110,351
Year End Customers	251,962	251,962
	(3,800,936)	(3,690,585)
Operating Expenses		
Fuel Adjustment Clause	1,183,126	1,183,126
Environmental Surcharge	(6,012,832)	(6,012,832)
Year End Customers	202,500	202,500
Interest Expense	832,896	832,896
Depreciation Normalization	461,018	461,018
Right of Way	3,279,658	3,279,658
FEMA Credit	(66,196)	(66,196)
Donations, Promo Ads & Dues	(207,551)	(207,551)
Directors Expenses	(23,480)	(107,480)
Wages & Salaries	584,275	584,275
401k Contributions	183,538	183,538
Health Care Costs	(32,758)	(17,143)
Rate Case Costs	53,333	(35,078)
SBA/PPP Loan	(546,054)	(546,054)
Awards	-	(10,915)
Legal Expense	-	(21,948)
Meter Testing Expense	-	(89,613)
Non-recurring Cost	-	(24,600)
	(108,527)	(412,400)
Operating Margins Impact	(3,692,409)	(3,278,185)
Generation and Transmission Capital Credits	(462,219)	(462,219)
Net Margins Impact	(4,154,628)	(3,740,404)

Description	Actual Rates Actual Test Yr	Pro Forma Adjustment	Present Rates Adjusted TY	Increase	Final Rates Adjusted TY
Operating Revenues					
Total Sales of Electric Energy	48,719,895	(2,507,800)	46,212,095	6,167,450	52,379,545
Other Electric Revenue	615,847	110,351	726,198		726,198
Total Operating Revenue	49,335,742	(2,397,449)	46,938,293	6,167,450	53,105,744
Operating Expenses:					
Purchased Power	38,800,021	(3,334,070)	35,465,951		35,465,951
Distribution Operations	2,266,760	(187,899)	2,078,861		2,078,861
Distribution Maintenance	2,646,181	3,076,826	5,723,007		5,723,007
Customer Accounts	1,288,345	(95,553)	1,192,792		1,192,792
Customer Service	139,610	(19,575)	120,034		120,034
Sales Expense		-			-
A&G	1,683,907	214,312	1,898,220		1,898,220
Total O&M Expense	46,824,824	(345,959)	46,478,865	-	46,478,865
Depreciation	3,259,870	461,018	3,720,888		3,720,888
Taxes - Other	47,601	-	47,601	9,208	56,809
Interest on LTD	642,670	832,896	1,475,565		1,475,565
Interest - Other	27,057	-	27,057		27,057
Other Deductions		-			-
Total Cost of Electric Service	50,802,022	947,955	51,749,976	9,208	51,759,184
Utility Operating Margins	(1,466,279)	(3,345,404)	(4,811,683)	6,158,242	1,346,559
Non-Operating Margins - Interest	31,811	-	31,811		31,811
Income(Loss) from Equity Investments		-			-
Non-Operating Margins - Other	842,193	(882,874)	(40,681)		(40,681)
G&T Capital Credits	462,219	(462,219)	-		-
Other Capital Credits	131,606	-	131,606		131,606
Net Margins	1,550	(4,690,496)	(4,688,947)	6,158,242	1,469,296
Cash Receipts from Lenders	35,536		35,536		35,536
OTIER	(1.23)		(2.24)		1.94
TIER	1.00		(2.18)		2.00
TIER excluding GTCC	0.28		(2.18)		2.00
Target TIER	2.00		2.00		2.00
Margins at Target TIER	642,670		1,475,565		1,475,565
Revenue Requirement at Target TIER	51,444,691		53,225,541		53,234,749
Revenue Deficiency at Target TIER	641,120		6,164,512		6,269.74
Variance from Target TIER			(4.18)		(0.00)
Target OTIER	1.85		1.85		1.85
Margins at Target OTIER	1,978,562		1,341,431		1,341,431
Revenue Requirement at Target OTIER	52,780,584		53,091,407		53,100,615
Revenue Deficiency at Target OTIER	1,977,012		6,030,378		(127,865)
Variance from Target OTIER			(4.09)		0.09
Increase $					6,167,450
Increase %					12.66%

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00147 DATED APR 05 2024

The following rates and charges are prescribed for the customers served by Taylor County Rural Electric Cooperative 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.

Residential Farm & Home

Customer Charge	$17.01 per Month
Energy Charge	$0.092829 per kWh

Residential Marketing Rate

Customer Charge	$17.01 per Month

General Purpose Part 1 < 50 KVA

Customer Charge	$25.00 per Month

Nonrecurring Charge	
Returned Check Charge	$ 0.00
Meter Test	$ 6.00
Meter Read	$ 6.00
Termination/Field Connection	$ 6.00
Reconnection Charge	$ 6.00
Reconnection Charge (After hours)	$89.00
Service Investigation	$ 6.00
Service Investigation (After Hours)	$89.00

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