COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION FOR AN ADJUSTMENT OF RATES	)))	CASE NO. 2018-00272

ORDER

On September 20, 2018, Grayson Rural Electric Cooperative Corporation (Grayson RECC) submitted an application for an adjustment of its existing rates based on a historic test year. On September 28, 2018, the Commission notified Grayson RECC that its application had not been accepted for filing due to certain deficiencies.[1] Grayson RECC responded to the deficiencies on October 3, 2018, and by letter dated October 5, 2018, the Commission notified Grayson RECC that it had cured the deficiencies and its application was accepted for filing as of October 3, 2018. By Order issued on October 19, 2018, the Commission, pursuant to KRS 278.190(2), suspended the effective date of the proposed rates for five months, up to and including, April 1, 2019, in order to investigate the reasonableness of the proposed rates. The October 19, 2018 Order further established a procedural schedule for the processing of this matter, providing for, among other things, a deadline for intervention requests and two rounds of discovery upon Grayson RECC's application.

[1] Those deficiencies related to Grayson RECC's failure to provide a statement regarding public notice consistent with 807 KAR 5:001, Section 16(1)(b)(5), and a failure to post a copy of its public notice on its website in accordance with 807 KAR 5:001, Section 17.

The Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General) filed for full intervention November 1, 2018, pursuant to KRS 367.150(8). The Commission granted intervention to the Attorney General on November 5, 2018.

Grayson RECC responded to four rounds of requests for information from Commission Staff and provided written responses to two rounds of information requests made by the Attorney General. A hearing in this matter was conducted on February 19, 2019. In addition, Grayson responded to post-hearing information requests from the Commission and the Attorney General. A post-hearing brief was filed by the Attorney General on March 15, 2019. Grayson filed its response to the Attorney General in a post-hearing brief on March 25, 2019.

BACKGROUND

Grayson RECC 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 14,158 member-consumers in Carter, Elliott, Greenup, Lawrence, Lewis, and Rowan counties, Kentucky.[2] Grayson RECC does not own any electric generating facilities but purchases its total power requirements from East Kentucky Power Cooperative, Inc.[3] Grayson RECC's last general rate adjustment was filed in 2012.[4]

[2] Annual Report of Grayson Rural Electric Cooperative Corporation to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2017 (filed April 4, 2018), at 45 and 53.

[3] *Id.* at 40 and 43.

[4] Case No. 2012-00426, *Application of Grayson Rural Electric Cooperative for an Adjustment in Rates* (Ky. PSC July 31, 2013) (July 31, 2013 Order).

Grayson RECC stated that an adjustment of its existing rates is needed to offset increases in the costs of power,[5] materials, equipment, labor and other fixed and variable expenditures that have occurred since its last rate case. Grayson RECC also indicated that it is not meeting its mortgage requirements with the current revenue received.[6] Specifically, Grayson RECC determined that it had a Times Interest Earned Ratio (TIER) of -1.09 in 2017[7] and 1.1 for 2018.[8] Grayson RECC noted that its lenders require it to maintain a TIER of 1.25 for two of the last three years.[9] Grayson RECC requested a rate increase based on a TIER of 2.0 and argued that a TIER of 2.0 was reasonable because it would allow it to maintain the margin required by its lenders, provide for its operating needs and pay capital credits.[10]

Grayson RECC calculated its proposed rate increase based on a test year ending December 31, 2017, with pro forma adjustments for known and measurable changes. Excluding long-term interest expense, as it is included in the margin requirement, Grayson RECC calculated its actual operating expenses in the test year to be $28,745,988 and pro forma operating expense to be $26,973,923.[11] Based on the proposed pro forma operating expenses and a proposed TIER of 2.0, Grayson RECC

[5] East Kentucky Power Cooperative (EKPC) has not had a base rate increase since January 2011.

[6] Application at paragraph 3.

[7] Grayson RECC's Response to Commission Staff's Third Request for Information (Response to Staff's Third Request), Item 5, Attachment at 5, 6.

[8] February 19, 2019, H.V.T. at 3;25;02.

[9] February 19, 2019, H.V.T. at 5:50.

[10] Application at H-1, 2, Direct Testimony of Carol Hall Fraley, (Fraley Direct Testimony) at 2.

[11] Grayson RECC's Response to Commission Staff's Fourth Request for information (Response to Staff's Fourth Request), Items 1 and 2. Staff notes that the information in initial Schedule S filing was inaccurate and Grayson RECCC revised the calculations four times upon request from Staff.

calculated its margin requirement to be $1,305,501.[12] Grayson RECC calculated its actual operating revenue in the test year to be $27,461,142 and its pro forma operating revenue to be $27,789,106.[13] Thus, Grayson RECC determined that it required a $1,579,291 increase in operating revenue, or $29,368,397 in total revenue, to achieve its proposed TIER of 2.0.[14]

JULY 31, 2013 ORDER

In the final order of Grayson RECC's last rate case, Case No. 2012-00426,[15] the Commission explicitly stated that Grayson RECC needed to address fundamental financial planning and operational policy decisions that led to the deteriorated financial state Grayson RECC found itself in at that time. Although alarming deficiencies in management decisions were brought to light during the pendency of that rate case, Grayson RECC has offered no evidence in this rate case to show that it has addressed the areas of concern that the Commission highlighted in the July 31, 2013 Order. The Commission is unsure whether Grayson RECC's failure to properly manage its operations and control its expenditures stems from a lack of management, from Grayson RECC's Board of Directors' inability to make the necessary systemic changes, or from Grayson

---

[12] *Id.*

[13] *Id.*

[14] *Id.*

[15] *Supra*, fn. 4, July 31, 2013 Order.

RECC making a calculated decision to disregard the July 31, 2013 Order.[16] It is not fair, just, and reasonable to allow Grayson RECC to ignore the clear management deficiencies that continue to negatively affect the financial state of the cooperative and to burden the ratepayers who ultimately suffer the consequences of systemic mismanagement.

The July 31, 2013 Order articulated the Commission's concerns that Grayson RECC chose to continue to increase its average wage and salary expense despite the obvious deterioration of its financial condition and an inability by Grayson RECC to meet its required TIER.[17] The wage and salary expense policy has not changed to date. Also concerning the Commission in 2013 was the "magnitude" of Grayson RECC's Directors' fees and expenses; this continues to be an area of concern.[18] Grayson RECC's management and Board of Directors remain accountable for those expenses that are not allowed for ratemaking purposes. Those expenses not allowed for ratemaking still affect the utility's overall financial state and ultimately reduce the margins available to pay capital credits to ratepayers. It is unreasonable for Grayson RECC to argue that it is not meeting its mortgage requirements with the current revenue received,[19] and also to expect the Commission to ignore the fact that Grayson RECC spent a significant portion

[16] February 19, 2019, H.V.T. at 44:15-47:36. Ms. Fraley admitted Grayson RECC did not seriously consider asking employees to contribute a portion to healthcare, despite being aware of the Commission's stance on health benefit contribution; at 58.40-1:00:57, Ms. Fraley testified that the cost savings measures described, such as blanket purchasing, bidding out purchases, and using computers in trucks, were not implemented in response to the July 31, 2013 Order and were in place before the 2012 rate case; at 1:28:00-1:31:16, the Board of Directors decided to increase the Directors per diem despite being aware of the Commission's guidance in the July 31, 2013 Order and Ms. Fraley doesn't feel it is management's role to advise the Board on Directors' fees, but notes that each director gets a report of the travel expenses for training.

[17] July 31, 2013 Order at 14.

[18] *Id.*

[19] Application at paragraph 3.

of its revenue paying for the same untimely and ill-advised wage and salary increases, and high Directors' fees and expenses, that the Commission advised Grayson RECC to address in 2013. Grayson RECC has not shown that it put any significant thought or action into reducing this discretionary spending.[20] The Commission admonished Grayson RECC in the July 31, 2013 Order to "evaluate its priorities when making discretionary spending in order to minimize the potential for both negative financial impacts and negative operational impacts."[21] The Commission clearly stated that management and the Board of Directors have "not been prudent in awarding wage and salary increases during a time of difficult financial circumstances."[22]

Further, the July 31, 2013 Order made it clear that:

> [T]he amount and time of Grayson's wage and salary increases, in addition to other factors discussed herein, have eroded Grayson's TIER, debt-service coverage ratios, and equity position. During poor economic conditions, management and the Board of Directors must exercise sound judgment in making financial decisions to avoid the type of financial situation Grayson [RECC] finds itself in.[23]

And finally, the Commission "strongly" recommended Grayson RECC improve its financial condition before considering further wage and salary increases for its

---

[20] February 19, 2019, H.V.T. at 15:19, Ms. Fraley testified that the Board of Directors may put new policies in place at some point; 54:16-55:03, no formal study done on how the increased customer charge would affect its low-income customers; 59:40, no analysis that precipitated the use of computers in trucks; 44:15-47:36. Ms. Fraley admitted Grayson RECC did not seriously consider asking employees to contribute a portion to healthcare, despite being aware of the Commission's stance on health benefit contribution; and 58.40-1:00:57. Ms. Fraley testified that the cost savings measures described, such as blanket purchasing, bidding out purchases, and using computers in trucks, were not implemented in response to the July 31, 2013 Order and were in place before the 2012 rate case.

[21] July 31, 2013 Order at 15.

[22] *Id.* at 14.

[23] *Id.*

employees.[24] Grayson RECC's current application and evidence now presented shows that it did not improve its financial condition before considering additional wage and salary increases.[25] As discussed more thoroughly below, Grayson RECC applied for an adjustment of its existing rates without addressing or offering a valid response to the Commission's concerns from the July 31, 2013 Order. When questioned, Grayson RECC presented no quantifiable evidence of measures that its management and Board of Directors planned, studied, or implemented to address the Commission's concerns contained in the July 31, 2013 Order.

TEST PERIOD

Grayson RECC proposed, and the Commission accepts, a historical 12-month period ended December 31, 2017, as the test period for determining the reasonableness of the proposed rates. In utilizing the historical test year, the Commission considers appropriate known and measurable changes.

VALUATION

Grayson RECC determined a net investment rate base of $55,584,018 based on the adjusted test-year-end value of plant in service and construction work in progress (CWIP), the 13-month average balances for materials and supplies and prepayments, plus a cash working capital allowance, minus the adjusted accumulated depreciation and the test-year-end level of customer advances for construction (Customer Advances).[26]

---

[24] *Id.*

[25] Application, Exhibit 1.

[26] Grayson RECC's Response to Commission Staff's First Request for Information (Response to Staff's First Request), Item 2.

The Commission concurs with Grayson RECC's proposed rate base with the exception that working capital is to be adjusted to reflect adjustments to operation and maintenance expenses as discussed below. With this adjustment, Grayson RECC's net investment rate base for ratemaking purposes is as follows:

Utility Plant in Service	$	76,908,490
Construction Work in Progress	$	1,002,088
Total Plant	$	77,910,578
Add:		
Materials & Supplies	$	267,646
Prepayments	$	328,343
Cash Working Capital Allowance	$	774,983
Subtotal	$	1,370,972
Deduct:		
Accumulated Depreciation	$	23,474,155
Advances for Construction	$	367,135
Subtotal	$	23,841,290
Net Investment Rate Base	$	55,440,260

REVENUE AND EXPENSES

Grayson RECC proposed 17 adjustments in its original application and one more adjustment in response to Commission Staff's information requests to normalize its test-year operating revenues and expenses based upon Commission practice and precedent. The Commission finds that the adjustments proposed by Grayson RECC listed below, are reasonable and should be accepted without change.

Property Taxes	$14,166
Interest Expense - Other	$ (20,343)
Retirement Benefits	$40,157
Donations, Promotional Advertising & Dues	$ (14,805)
Professional Services	$(34,778)
Depreciation	$83,100
Advertising	$(783)
Miscellaneous Expenses	$ (31,868)
G&T Capital Credits	$(504,926)
Purchased Power	$(1,645,172)
Normalize Fuel Adjustment Clause Revenues	$(907,226)

Normalize Base Rate Revenues	$(1,255,498)
Year-End Customers	$(20,308)

In addition to these adjustments, the Commission also finds that additional adjustments discussed below should be made.

REVENUE REQUIREMENT

Operating Expenses

Grayson RECC proposed pro forma adjustments as noted above.[27] Although the Commission finds those adjustments to be reasonable, we note that additional adjustments should be made to Grayson RECC's rate case expenses, expenses for health insurance premiums, wages and salaries, depreciation interest on long-term debt, life insurance, and the PSC Assessment. Those adjustments are discussed further below.[28]

Rate Case Expense

Grayson RECC estimated its rate case expense to be $90,000, proposed to amortize that expense over three years and included the amortization of that expense in its proposed revenue requirement.[29] Grayson RECC's most recent update, on March 8, 2019, indicated that its total rate case expense was $73,580.[30] The Commission finds this amount reasonable. Because Grayson RECC incurred fewer expenses than

[27] Grayson RECC's Response to the Post Hearing Data Request, Item 16.

[28] See Appendix B for a complete list and comparison of adjustments.

[29] Application, Exhibit 11.

[30] Grayson's Response to Staff's Post-Hearing Request, Item 16 at 1.

expected, a three-year amortization of these expenses will result in a decrease in its operating expenses of $5,473.[31]

Employee Benefits

Grayson RECC provides health insurance to its employees and their families and pays 100 percent of the premiums.[32] The Commission has explicitly held on numerous recent occasions that expenses for employee benefits are unreasonable if they exceed benefits that are market competitive.[33] In every general rate case filed since 2016 in which a utility sought to recover its expenses for the payment of 100 percent of its employees' health insurance premiums, the Commission has reduced test-year expenses for health insurance premiums to levels based on national average employee contribution rates. Similarly, the Commission has held that it is unreasonable for utilities to pay the full contribution to a defined benefits retirement plan while simultaneously contributing to 401(k) retirement savings plans for its employees.[34] The Attorney General agrees with

---

[31] $90,000 - $73,580 = $16,420 / 3 = $5,473

[32] Response to Staff's Third Request, Item 10a.

[33] *See, e.g.*, Case No. 2016-00434, *Application of Shelby Energy Cooperative, Inc. for an Increase in its Retail Rates* (Ky. PSC July 1, 2017) Final Order at 6–7; Case No. 2016-00367, *Application of Nolin Rural Electric Cooperative Corporation for a General Rate Increase* (Ky. PSC June 21, 2017) Final Order at 10–11; Case No. 2016-00365, *Application of Farmers Rural Electric Cooperative Corporation for an Increase in Retail Rates* (Ky. PSC May 12, 2017) Final Order at 6–7; Case No 2016-00174, *Electronic Application of Licking Valley Electric Cooperative Corporation for a General Rate Increase* (Ky. PSC Mar. 1, 2017) Final Order at 18; and Case No. 2017-00349, *Electronic Application of Atmos Energy Corporation for an Adjustment of Rates and Tariff Modifications* (Ky. PSC May 3, 2018) Final Order at 19.

[34] *See* Case No. 2016-00434, *Application of Shelby Energy Cooperative, Inc. for an Increase in its Retail Rates* (Ky. PSC July 1, 2017) Final Order at 6-7; Case No. 2016-00367, *Application of Nolin Rural Electric Cooperative Corporation for a General Rate Increase* (Ky. PSC June 21, 2017) Final Order at 10–11; Case No. 2016-00365, *Application of Farmers Rural Electric Cooperative Corporation for an Increase in Retail Rates* (Ky. PSC May 12, 2017) Final Order at 6–7; Case No 2016-00174, *Electronic Application of Licking Valley Electric Cooperative Corporation for a General Rate Increase* (Ky. PSC Mar. 1, 2017) Final Order at 18; *see also* Case No. 2017-00349, *Electronic Application of Atmos Energy Corporation for an Adjustment of Rates and Tariff Modifications* (Ky. PSC May 3, 2018) Final Order at 12 ("The Commission finds that, for ratemaking purposes, it is not reasonable to include both Atmos's defined benefit plan expense and matching contributions to employees' defined contribution plans.").

the Commission's recent stance on employee contributions to health insurance premiums in accordance with national market trends and recommended the Commission follow the same precedent for Grayson RECC.[35]

While the Commission does not expect utilities to offer identical benefits packages, the Commission does expect compensation and benefits offered to employees to be consistent with those offered by businesses that operate in a competitive market and the same geographic area. Additionally, the Commission expects the compensation and benefits to be justified with compensation and benefits studies or other similar evidence. Based on the current market, it is difficult to see any circumstance under which the payment of 100 percent of employee health insurance could be justified[36] and the Commission is puzzled why cooperative utilities continue to propose recovering the costs of such plans. Moreover, Grayson RECC indicated a lack of understanding that payment of 100 percent of health insurance was included in the rate case.[37] Grayson RECC failed to establish justification in this case for the payment of 100 percent of health insurance costs.

---

[35] Attorney General's Post-Hearing Brief at 10–11 (March 15, 2019). The Attorney General agrees with the Commission's recent precedent citing the same facts that Grayson RECC has not required its employees to make health insurance premium contribution despite notice of a clear Commission precedent.

[36] *See* Bureau of Labor Statistics, Healthcare Benefits, Mar. 2018, Medical care benefits: Share of premiums paid by employer and employee, private industry workers, March 2018, Table 10 (https://www.bls.gov/ncs/ebs/benefits/2018/ownership/private/table10a.pdf) (last accessed January 18, 2019) (indicating that the average private sector employee contribution rate for insurance premiums is 21 percent for individual plans and 33 percent for family plans).

[37] February 19, 2019, H.V.T, 2:06:40-2:07:29, Ms. Fraley indicated she did not understand the ratemaking process. When asked if she believed payment of 100 percent health insurance or continued wage and salary increases despite the financial condition of the utility contributed to Grayson RECC not meeting its TIER requirements, Ms. Fraley testified that she did not believe those benefits were included in the rate case. She then admitted that she "would think that yes, it contributed, it would have to" contribute to Grayson RECC not meeting its TIER requirements.

Grayson RECC has defended the higher benefits as compared to other Kentucky utilities as a means to compete for a particular caliber of personnel.[38] Further, Grayson RECC asserted that it has difficulty retaining a highly trained and technically skilled workforce, even with its current compensation and benefits offered, due to competition for personnel with other Kentucky utilities and employers in the area.[39] Thus, Grayson RECC claimed that the compensation and benefits it currently offers are necessary to retain a technically skilled and experienced workforce.[40]

While Grayson RECC indicated that competition for employees in their labor market and with other Kentucky utilities necessitates the offering of the benefits discussed above, this is not supported by the evidence. The Commission has been consistent in recent rate cases in prohibiting Kentucky utilities from recovering expenses for the payment of 100 percent of health insurance premiums.[41] Given this consistent treatment, an order prohibiting Grayson RECC from recovering those amounts through rates should not place it at a disadvantage as compared to other Kentucky utilities. Additionally, the presentation that Grayson RECC submitted as a compensation study focused solely on wages, did not address the benefits it offers and did not indicate a significant disparity between the wages it offers and the wages offered by others.[42] Thus, the Commission is

---

[38] February 19, 2019 H.V.T at 23:20-27:10; and 41:21-41:38.

[39] *Id.*

[40] *Id.*

[41] *See, e.g.* Case No. 2016-00367, *Application of Nolin Rural Electric Cooperative Corporation for a General Rate Increase* (Ky. PSC June 21, 2017), Final Order at 10–11.

[42] Grayson RECC's Response to Staff's First Request, Item 53.

unable to find that it is necessary for Grayson RECC to pay 100 percent of health insurance premiums for the purpose of competing with other companies for employees.

The Commission also observes that Grayson RECC represented that it implemented costs savings measures to manage expenses.[43] Yet, it continued to pay 100 percent of employee health insurance premiums and for two retirement plans for certain employees in a manner contrary to national trends and inconsistent with the recent orders of this Commission. Moreover, Grayson RECC admitted that its cost savings measures were practices in place prior to the 2012 rate case and that it never seriously considered asking its employees to contribute to health insurance premiums.[44] This is particularly troubling because Grayson RECC failed to meet the margin requirement established by its lender. Again, Grayson RECC's actions are in direct contravention of the July 31, 2013 Order, in which the Commission explicitly advised Grayson RECC not to continue to increase its average wage and salary expense in light of its deteriorated financial condition had deteriorated and its failure to meet its required TIER.[45]

The direction put forth in an Order from the Commission should be followed and should a utility decide to deviate from the Commission's guidance, the utility should offer a basis for that decision, including some form of examination, study, analysis, or report

[43] Fraley Direct Testimony at 3. *See also* Grayson's Response to Staff's Post-Hearing Request, Item 5. Application, Exhibit 18, The Commission notes that Exhibit 18 of Grayson RECC's Application shows its expense per customer increased from 2016-2017 and is the highest among cooperatives in EKPC. Grayson RECC's filed documents refute its claim that it is reducing costs.

[44] February 19, 2019, H.V.T. at 44:15-47:36. Ms. Fraley admitted Grayson RECC did not seriously consider asking employees to contribute a portion to healthcare, despite being aware of the Commission's stance on health benefit contribution; and 58.40-1:00:57. Ms. Fraley testified that the cost savings measures described, such as blanket purchasing, bidding out purchases, and using computers in trucks, were not implemented in response to the July 31, 2013 Order and were in place before the 2012 rate case.

[45] *See supra*, fn. 4. July 31, 2013 Order, at 14.

on the issue that informed the manager's or Board of Directors' decision. Grayson RECC President and CEO, Carol Hall Fraley, in testimony addressing the actions Grayson RECC has taken to address the Commission's concerns in the July 31, 2013 Order, stated that the Board of Directors did not replace a Board member who retired and may look at reducing the number of seats on the Board.[46] In pre-filed direct testimony, Ms. Fraley offered general examples of "costs savings measures" such as: the instance of the retired Board member; the use of computer tablets; blanket order purchasing; and the use of pole top covers. Given the opportunity at the hearing and in response to Commission Staff's post-hearing data requests to provide details, Ms. Fraley offered a largely unsupported and undocumented estimated amount of $113,395 in savings without an indication of how the data was derived or calculated, or if the efficiencies were planned, analyzed or studied in correlation with the systemic need for control of costs or improved efficiency.[47] The Attorney General advocated for Grayson RECC to do more to consistently reduce spending. The Attorney General also noted that Grayson RECC's reliance on natural attrition despite testifying that its turnover rate is virtually zero is not only inconsistent but also an "abdication of the utility's responsibility to its customers."[48]

The Commission expects all utilities to be cognizant of controllable costs incurred at unreasonable levels, including expenses associated with employee benefits. The

[46] February 19, 2019, H.V.T at 13:31; 15:19-21:20; and 58.40-1:00:57. Ms. Fraley testified that the cost savings measures described, such as blanket purchasing, bidding out purchases, and using computers in trucks, were not implemented in response to the July 31, 2013 Order and were in place before the 2012 rate case. at 59:40-1:00:57.

[47] Grayson RECC's Response to Staff's Post-Hearing Request, Item 5.

[48] Attorney General's Post Hearing Brief at 12. The Attorney General claims Grayson RECC has not demonstrated that it has done enough to consistently reduce O&M spending or to incorporate efficiencies.

Commission finds that Grayson RECC's payment of 100 percent of employee health insurance premiums is unreasonable for the reasons discussed above.[49] Because it proposed no reasonable alternative, the Commission further finds that Grayson RECC should limit its contributions to its employees' health plans to percentages that are market place competitive. Therefore, the Commission will adjust the test-year health insurance premiums based on the national average employee contribution rates of 33 percent for family plans and 21 percent for individual plans in a manner consistent with other recent cases.[50] Recognizing the portion of that expense that would be capitalized, Grayson RECC's health insurance expense should be decreased by $149,530.[51]

Grayson RECC provides its employees with a defined benefit pension plan and makes contributions to a 401k for employees. The Commission will note that while in the past it has allowed utilities to recover expenses from only one retirement, it will not make an adjustment in this case. Grayson RECC contributions to employees' 401k account in an amount equal to the cost of providing one years' salary or wages of long-term disability

---

[49] February 19, 2019, H.V.T. at 45:30-47:35. Ms. Fraley described cost savings measures she later admitted were in place before the July 31, 2013 Order, such as "truck travel". Ms. Fraley admitted Grayson RECC did not seriously consider asking employees to contribute a portion to healthcare, despite being aware of the Commission's stance on health benefit contribution.

[50] *See* Bureau of Labor Statistics, Healthcare Benefits, Mar. 2018, Medical care benefits: Share of premiums paid by employer and employee, private industry workers, March 2018, Table 10 (https://www.bls.gov/ncs/ebs/benefits/2018/ownership/private/table10a.pdf) (last accessed January 18, 2019) (indicating that the average private sector employee contribution rate for insurance premiums is 21 percent for individual plans and 33 percent for family plans); *see also* Case No. 2016-00367, *Application of Nolin Rural Electric Cooperative Corporation for a General Rate Increase*, (Ky. PSC June 21, 2017), Final Order at 10–11 *citing* Bureau of Labor Statistics, Healthcare Benefits, Medical care benefits: Share of premiums paid by employer and employee, private industry workers, Mar. 2016, Table 10 (https://www.bls.gov/ncs/ebs/benefits/2016/ownership/private/table10a.pdf) (last accessed January 18, 2019) (adjusting rates based on national averages of 32 percent and 21 percent).

[51] Although in response to Grayson RECC's Response to Staff's Third Request for Information Grayson RECC provided this adjustment and included this adjustment in its revenue requirement calculation, Grayson RECC did not formally accept this adjustment.

insurance.[52] Because the contribution is for this purpose and an expense that is typically allowed, the Commission will not make an adjustment or disallow for rate-making the contribution to the 401k accounts.

Wages and Salaries

Despite the Commission's admonitions in the July 31, 2013 Order, Grayson RECC has continued to increase its average wage and salary expense while its financial condition has deteriorated and while Grayson RECC failed to meet its required TIER.[53] Grayson RECC proposed to normalize its wages and salary expense to account for known and measurable changes; the adjustment would increase the expense by $37,041. The Commission analyzed the wage and salary expense and has found that increases to wages and salaries are excessive given Grayson RECC's financial position, as illustrated by Grayson RECC's non-bargaining employees receiving wage increases ranging from 3.29 to 4.12 percent annually.[54] Through discovery, Staff asked what the revenue impact would be if wage and salary increases were limited to 3 percent. Grayson responded that with an adjustment of $30,688.[55] In addition, Grayson confirmed that the proposed adjustments reflected in response to this request are a restatement of its Application.[56]

---

[52] Grayson RECC's Response to Staff's Third Request, Item 10d and Staff's Post-Hearing Request, Item 15.

[53] *See supra, ft.* 4, July 31, 2013 Order, at 14.

[54] Application, Exhibit 1, page 2.

[55] Grayson RECC's Response to Staff's Third Request, Item 8.

[56] Grayson RECC's Response to Staff's Fourth Request for Information, Item 1.

Grayson RECC likewise proposed to normalize the associated payroll taxes and proposed to increase expense by $7,558. Based on the adjustment above for wages and salaries the expense adjustment should be $7,073.

The Attorney General stated that Grayson RECC's wage and salary increases have been irresponsible.[57] The Attorney General noted Grayson's increases since its previous rate case have increased at an average annual rate of 3.76 percent.[58] He further noted that the wage increases for non-union employees always match the negotiated union increases for ease of administration and because Grayson RECC considers this practice necessary for fairness. Such increases are above the rate of increase in the cost of living and do not consider the ratepayers who must bear the rate increase.[59]

The Commission finds that Grayson RECC has not been prudent or improved its financial condition before considering wage and salary increases.[60] In addition to Grayson RECC representing it increased wages and salaries for non-union employees because union employees negotiated an increase, providing no more basis than a sense of fairness and administrative ease, Grayson RECC could not show that management or the Board of Directors considered the financial state of the utility in its negotiations.[61] Carol Hall Fraley testified that Grayson RECC considered the overall health of the utility before negotiating with the union employees and making the decision to grant the wage

[57] Attorney General's Post Hearing Brief at 6.

[58] *Id.* at 7.

[59] *Id.* at 7–8.

[60] Attorney General's Post-Hearing Brief, at 7-8. *See supra, ft.* 11, July 31, 2013 Order, at 14.

[61] February 19, 2019 H.V.T. at 28:11; 1:40:42-1:47:08, non-bargaining employees received the same amount of increase as the bargaining employees.

and salary increases. However, the non-responsive and incomplete responses to data requests in the record,[62] and her circular testimony as further described below, explaining why she thinks Grayson RECC considered the financial state of the utility before granting wage and salary increases, did not support her contention.[63] Ms. Fraley testified that she thought this was so because Grayson RECC hired a consultant to provide "valid" information from the work community and from the electric cooperative community as to the market value of those jobs. She testified that economic circumstances and Grayson's revenue and expenses would influence negotiations. Her statements in no way explain why she believed that Grayson RECC took its financial state under consideration before granting the wage and salary increases.[64] Ms. Fraley testified that she believed Grayson RECC justified granting wage and salary increases that amounted to approximately twice the rate of inflation/cost-of-living for 2013, 2014, 2015, 2016, and 2017, despite not meeting TIER requirements because in the past Grayson RECC had been conservative or suspended planned increases due to a rate case.[65] Ms. Fraley also believes Grayson RECC is not experiencing a loss of skilled linemen due to its pay and benefits, despite

[62] Staff conducted four rounds of discovery in addition to two rounds of post-hearing discovery due to inadequate, inaccurate, and incomplete responses. Either Grayson RECC does not have capable staff or the staff chose to deliberately mislead or delay Staff's efforts to establish the record for the Commission to determine a fair, just and reasonable outcome.

[63] February 19, 2019, H.V.T, 2:06:40-2:07:29, Ms. Fraley indicated she did not understand the ratemaking process. When asked if she believed payment of 100 percent health insurance or continued wage and salary increases despite the financial condition of the utility contributed to Grayson RECC not meeting its TIER requirements, Ms. Fraley testified that she did not believe those benefits were included in the rate case. She then admitted that she "would think that yes, it contributed, it would have to" contribute to Grayson RECC not meeting its TIER requirements.

[64] February 19, 2019 H.V.T. at 33:35-35:30.

[65] February 19, 2019 H.V.T. at 36:30 and 2:01:03-3:01:00, Ms. Fraley testified that she thinks Grayson RECC may have increased wages and salaries to approximately more than twice the rate of inflation/cost of living from 2013 to 2017 because Grayson RECC had been conservative in granting increases prior to the 2012 rate case and adjusted the increases as it received more revenue.

not knowing what benefits other cooperatives offer.[66] It is unclear whether Grayson RECC has an accurate understanding of the critical state of its finances and the correlation between perpetuating self-serving policies that involve expenses not allowed for ratemaking purposes and how they erode Grayson RECC's TIER, debt-service coverage ratios, and equity position.

For these reasons, the Commission questions the choices that the Board of Directors and management have made and whether Grayson RECC has made any meaningful attempt to improve its financial situation that would address the concerns the Commission had in its July 31, 2013 Order. The Commission continues to have the same concerns about the future of Grayson RECC.

Depreciation

Grayson RECC proposed to normalize depreciation expense, which results in an increase in depreciation expense of $83,100 and decreases clearing accounts expense by $354. In response to Staff's fourth request, Item four, Grayson provided a revised depreciation adjustment. This adjustment used eleven months of 2018 actual depreciation for general plant items. The Commission finds that this is an unacceptable way to normalize depreciation expense and will reject this adjustment to the test year and accept the originally proposed normalization adjustment.

Interest on Long-term Debt

Grayson RECC proposed to normalize the long-term debt expense. Grayson RECC proposed to increase long-term debt expense by $276,694. The primary reason for the adjustment was to recognize the increased cost of its variable interest rate debt.

---

[66] *Id.* at 26:30-27:11.

Over the course of the proceeding, Grayson RECC acknowledged that variable interest rates had increased again since the filing of its rate application.[67] Based on the updated increase in rates to the variable interest rate debt the adjustment to interest expense the Commission finds that the adjustment to expense should be $325,335.

Directors Expense

Grayson RECC proposed to remove Directors' expenses not allowed for ratemaking in the amount of $54,415. Through discovery, Grayson RECC acknowledged that the amount should have been $82,126. The Commission agrees with the revised amount.

The Attorney General expressed his concern about the magnitude of Director's Fees in his Post-Hearing Brief. Here, the Attorney General noted that, despite the Commission expressing its concern in the previous rate case over the amount disallowed for ratemaking purposes, the per diem paid to directors increased in 2018. He noted that lack of prudency Grayson RECC has with respect to the director fees, especially when Grayson RECC claims its financial health lies in the balance. The Attorney General asks that the Commission require Grayson RECC to appropriately address these concerns and to document that it has done so.[68]

Ms. Fraley testified that Grayson RECC has not made any attempt since the last rate case to address the high amount of Directors' fees.[69] Ms. Fraley's testimony on the issue of reducing or controlling the magnitude of Directors' fees was speculative as to

[67] Grayson RECC's Response to Commission Staff's Fourth Request for Information (Response to Staff's Fourth Request), Item 5.

[68] Attorney General's Post-Hearing Brief at 8–10.

[69] February 19, 2019 H.V.T. at 15:55-16:49.

what the Board of Directors might consider at some point in the future, but Ms. Fraley, as President and CEO, did not indicate that she or the Board of Directors put any directive in place aimed at reducing the amount of Directors' fees. Ms. Fraley testified that the Board of Directors may look at reducing training days and "would hope" at some point that Board members may attend Board meetings via electronic communications or "Skype". Ms. Fraley's testimony at the hearing vacillated from representing the Board of Directors' actions, to addressing the Commission's concerns, to distancing herself from any responsibility for managing costs. Ms. Fraley testified that the Grayson RECC Board of Directors addressed reducing Directors' fees with a policy to track the number of training meetings, but offered no quantifiable data to show when that was implemented, or how that reduced Directors' fees. She further said that the Board of Directors was "very aware" of managing what training members of the Board were attending and it was not her "role" to limit training days for the Board members.[70]

The Commission addressed the high amount Grayson RECC paid its Directors in the July 31, 2013 Order. The Commission requested Grayson RECC "evaluate its priorities" to determine whether the state of the co-op and, by extension the service to the community, was more important than the policies in place to benefit the individuals in management and on the Board of Directors.[71] Grayson RECC could not provide any justification for its high cost of Directors' fees and health insurance paid for those Directors

[70] February 19, 2019 H.V.T. at 15:19-23:20.

[71] July 31, 2013 Order at 15.

and, in some cases, the Directors' spouses or families for life.[72] The Attorney General argued that Grayson RECC's practice of paying for its Director's and their spouses', and its attorney's health insurance has been phased out, but the continuing obligation serves to highlight "long-term effects of neglecting to make difficult, timely decisions to preserve the financial health of the cooperative."[73] Grayson RECC's responded that Grayson RECC removed the attorney's insurance premium from the test year expenses, "so it is irrelevant for rate making purposes."[74] Clearly, these practices are not irrelevant to Grayson RECC's financial state.[75] It has been established that Grayson RECC contracted to pay its former attorney's health insurance and his spouse's health insurance for the remainder of their lives, as well as the health insurance for the union's attorney.[76]

---

[72] Grayson RECC's Responses to Staff's Post-Hearing Data Requests, Item 7. Grayson RECC provided an exhibit which compares its monthly per diem and monthly stipend for its Directors with other cooperatives in EKPC, stating it does not provide health insurance to the Directors, without explaining it offers cash in lieu of healthcare coverage. In Grayson RECC's Responses to Attorney General's Post-Hearing Data Requests, Item 2, Grayson states that the monthly stipend of $637.63 per month is cash in lieu of taking healthcare insurance coverage. Additionally, Grayson RECC responded vaguely to Attorney General's Post-Hearing Data Request, Item 3; there are non-active Grayson RECC Directors still receiving healthcare benefits as a result of being grandfathered in prior to the change in board policy. Grayson RECC does not provide any more information regarding who is receiving the benefit, how much they receive, or any other details. The request for information is approximately the seventh information request made to Grayson RECC.

[73] Attorney General's Post-Hearing Brief at 10-11.

[74] Grayson RECC's Post-Hearing Brief at 10.

[75] February 19, 2019, H.V.T. at 2:16:13-2:17:18. Grayson RECC admitted that these expenses removed from the test year for ratemaking purposes affect the "bottom line" and are absorbed by the ratepayers.

[76] Grayson RECC's Responses to Staff's Post-Hearing Data Requests, Item 8. February 19, 2019, H.V.T. at 49:39; Application at Exhibit 19, at 17, union contract. Despite indicating that the contract that obligated Grayson RECC to pay insurance for an independent contractor was negotiated prior to Ms. Fraley's time in management, Grayson RECC's Responses to Staff's Post-Hearing Data Requests, Item 12, shows Grayson RECC's current attorney's contract for legal services indicates the attorney does "not need health insurance at this time." The handwritten language turning a letter into the contract and the language indicating that health insurance for an independent contractor might be an option in the future is concerning to the Commission, especially given the reckless disregard for Grayson RECC's financial state that management and Board of Directors have shown by offering health insurance to seemingly any and all parties with whom it negotiates a contract.

These practices are outrageous and are evidence of gross mismanagement.[77] It is not clear whether management or the Board of Directors is unaware the contracts are being negotiated by unsophisticated individuals and have not taken responsibility to address the negative impacts, or whether they are not equipped with an understanding of fundamental management practices that would enable them to recognize the problems and to put better policies and contracts in place. Much more concerning is the possibility that the Board of Directors and management are not addressing the policies that are having a negative impact on Grayson RECC because those policies perpetuate the self-serving culture that has historically benefitted the very individuals put in charge of budgeting and allocating Grayson RECC's resources.

Life Insurance

Grayson RECC provides life insurance to its employees. The Commission has found in past cases that life insurance to be provided to employees should not be excessive. The Commission has determined that any amount over $50,000 in coverage is excessive. Therefore, the Commission will remove from expenses the amount of the premium for coverage over $50,000. This adjustment will result in a removal of $5,269 from expenses.

PSC Assessment

Grayson RECC did not propose an adjustment to its PSC Assessment to reflect the effects of normalizing revenues and purchased power expense or the impact of its

[77] Attorney General Post-Hearing Brief at 8-11. The Attorney General is also concerned that Grayson RECC neglected to address the magnitude of its Directors' fees, citing the increase in the Directors' per diem in 2018, despite the dire financial state that forced Grayson RECC to ask for a rate increase. The Attorney General also cites the fact that Grayson RECC contracted with its former attorney to pay for his and his dependents' health insurance for life as evidence of the long-term effects of neglecting to make difficult, timely decisions to preserve the financial health of the cooperative.

proposed revenue increase. The Commission has determined that an adjustment to the PSC Assessment to reflect the normalization of revenue and purchased power expense found reasonable herein is appropriate. Based on the 2018-2019 assessment rate, the adjustment results in a $1,002 decrease in the PSC Assessment for the test year. The Commission has determined that an adjustment to the PSC Assessment based on the revenue increase being granted herein should also be calculated. This calculation results in an increase in the PSC Assessment of $3,130.

Adjustments to Operating Expense and Revenue

The chart below shows the effect of the Commission's adjustments along with the proposed and accepted adjustments of Grayson RECC.[78]

[78] See Appendix B for details of each adjustment.

Grayson RECC		PROPOSED REVENUE INCREASE =			$ 1,579,291
		STAFF PROPOSED REVENUE INCREASE = $			1,568,168

	TY ACTUAL 12/31/2017	STAFF ADJUSTMENTS	STAFF ADJUSTED TY	STAFF INCREASE	STAFF PROFORMA TY
OPERATING REVENUES:	$1,579,291				
Base Rates	25,564,196	1,255,498	26,819,694	1,568,168	28,387,862
Fuel and Surcharge	907,226	(907,226)	0	0	0
Other Electric Revenues	989,720	(20,308)	969,412	0	969,412
TOTAL	27,461,142	327,964	27,789,106	1,568,168	29,357,274
OPERATING EXPENSES:					
Cost of Power:	0				
Base Rates	15,900,076	(393,645)	15,506,431	0	15,506,431
Fuel and Surcharge	1,251,527	(1,251,527)	0	0	0
Distribution - operations	1,299,965	946	1,300,911	0	1,300,911
Distribution - maintenance	3,424,805	(25,183)	3,399,622	0	3,399,622
Consumer Accounts	1,070,977	(12,826)	1,058,151	0	1,058,151
Customer Service	260,150	(2,495)	257,655	0	257,655
Sales	22,103	(1,117)	20,986	0	20,986
Administrative & General	1,955,130	(147,423)	1,807,707	0	1,807,707
Total Operating Expenses	25,184,733	(1,833,270)	23,351,463	0	23,351,463
Depreciation	3,477,092	83,100	3,560,192	0	3,560,192
Amortization	0	0	0	0	0
Taxes - Other	41,074	(1,002)	40,072	3,130	43,202
Interest on Long-Term Debt	980,167	325,335	1,305,502	0	1,305,502
Interest expense - other	7,941	0	7,941	0	7,941
Other Deductions	35,148	(35,148)	0	0	0
INCOME DEDUCTIONS	4,541,422	372,285	4,913,707	3,130	4,916,837
Total Cost of Elec. Service	29,726,155	(1,460,985)	28,265,170	3,130	28,268,300
Operating Margins	(2,265,013)	1,788,949	(476,064)	1,565,038	1,088,974
Non-operating margins, interest	33,944	0	33,944	0	33,944
Income from equity investments	94,790		94,790		94,790
Nonoperating margins, other	504,926	(504,926)	0	0	0
Patronage captial credits	87,794		87,794	0	87,794
	721,454	(504,926)	216,528	0	216,528
Net Margins	(1,543,559)	1,284,023	(259,536)	1,565,038	1,305,502
TIER WITH G&TCC	(0.57)		0.80		2.00
TIER WITHOUT G&TCC (No G&T Capital Credits)	(1.09)		0.80		2.00
OTIER	(1.22)				1.90

REVENUE REQUIREMENTS

Grayson RECC's actual TIER, excluding Generation and Transmission Capital Credits, for the test period was -1.09. Accounting for the proposed pro forma adjustments, Grayson RECC's test period TIER increased to 0.80. Grayson RECC's Operating Times Interest Earned Ratio (OTIER) for the test period was -1.22.[79] The TIER method for determining margins has been the approach used by the Commission in rate cases to calculate the revenue requirement for electric distribution cooperatives. Moreover, the Commission has generally found that a TIER of 2.0 provides electric cooperatives a reasonable margin to meet the requirements imposed by its lenders and other financial obligations.[80] A TIER of 2.0 also appears to be reasonable in the case of Grayson RECC, based on its current financial position and its obligations to lenders. Thus, the Commission finds a TIER of 2.0, as proposed by Grayson RECC, should be used to calculate a reasonable margin for Grayson RECC, and therefore, Grayson RECC's margin requirement should be $1,305,502.

Based upon the operating expenses and margin found reasonable herein, Grayson RECC's revenue requirement from base rates is $28,387,862. This level of revenue will permit Grayson RECC to recover its reasonable operating expenses of $26,962,798, interest expense of $1,305,502, and a net margin of $1,305,502. Based on its current adjusted revenues, Grayson RECC will need an increase in revenues of $1,568,168 to recover its revenue requirement. This increase should also result in a TIER of 2.0 and

---

[79] Grayson RECC's Response to Staff's Fourth Request for Information, Item 7, Schedule S.

[80] *See, e.g.* Case No. 2016-00367, *Application of Nolin Rural Electric Cooperative Corporation for a General Rate Increase* (Ky. PSC June 21, 2017).

an OTIER of 1.90, which should allow Grayson RECC to meet its mortgage requirements and service its mortgage debts. Based on the net investment rate base of $55,440,260 found reasonable herein, this additional revenue should result in a rate of return on rate base of 4.71 percent.[81]

PRICING AND TARIFF ISSUES

Cost of Service

Grayson RECC filed a fully allocated cost-of-service study (COSS) in order to determine the cost to serve each customer class. Grayson RECC used the COSS to assist in the determination of the amount of the proposed increase and the proposed rate design.[82] Upon review of Grayson RECC's COSS, the Commission found several errors, which Grayson RECC revised. The Commission finds the revised COSS as filed with the post-hearing data requests to be acceptable for use as a guide in allocating the revenue increase granted herein.[83]

Revenue Allocation

Grayson RECC's COSS demonstrates that at the current rates, Schedule 2 - Commercial and Small Power, Schedule 4 – Large Power, Schedule 14 – Industrial, Schedule 19 – Temporary Service, and Schedule 21 - Residential Prepay provide revenues greater than the cost to serve, while other rate classes produce revenues less than their class cost to serve.[84] Grayson RECC proposes that 50 percent of the proposed

---

[81] $1,305,502 (Granted Margin) + $1,305,502 (Normalized Interest on Long-Term Debt) = $2,611,004 ÷ $55,440,260 (Net Investment Rate Base) = 4.71 percent.

[82] Application, Exhibit H-3, Direct Testimony of James R. Adkins, page 5.

[83] Grayson RECC's Response to Staff's Post Hearing Request, Item 10, 2nd Revised Exhibit R.

[84] *Id.*, page 40 – 43.

revenue be allocated to Schedule 1 – Domestic Farm & Home Service. In its Application, Grayson RECC wants to keep the residential increase between five and six percent, stating such an increase will be sufficient to meet its needs without undue hardships on its residential members.[85] Grayson RECC proposes that all other rate classes receive some type of increase. The Commission has reviewed Grayson RECC's proposed allocation of the increase and finds the allocation acceptable.

Rate Design

Grayson RECC proposes to increase the Customer Charges in greater proportion relative to the Energy Charges and Demand Charges to better align the rate structures with the findings in the COSS.[86] Grayson RECC's rationale is such a rate design better matches the customer-related costs to the customer charge and lessens the revenue volatility associated with extreme weather conditions.[87] Specifically, Grayson RECC proposes to place 100 percent of the requested revenue increase on the customer charge. The table below shows the current Customer Charges, the proposed Customer Charges, and the Customer Charges that were supported by the COSS:[88]

[85] Grayson RECC's Response to Commission Staff's Second Request, Item 5.

[86] Application, Exhibit H-3, Direct Testimony of James R. Adkins (Adkins Direct Testimony), at 4.

[87] *Id.*

[88] Grayson RECC's Response to the Attorney General's Initial Data Request, Item 2.

	Current Rate	Proposed Rate	COSS Rate
1- Domestic - Farm & Home Service	$15.00	$22.50	$45.17
2 - Commercial and Small Power	$27.50	$30.00	$43.71
4 - Large Power Service-Single and 3-Phase	$63.02	$67.50	$58.01
7 - All Electric Schools	$31.04	$35.00	$61.15
10 - Residential Time of Day	$19.00	$22.50	$49.05
14(a) - Large Industrial Service (1)	$566.12	$566.12	$1,574.16
16 - Small Commercial Demand & Energy Rate[89]	$27.50	$30.00	$56.78
17 - Water Pumping Service	$41.39	$45.00	$44.24
18 - General Service Rate	$22.50	$27.50	$44.07
19 - Temporary Service Rate	$51.73	$55.00	$46.23
20 - Inclining Block Rate	$15.00	$22.50	$48.52
21 - Prepay Metering Program (Residential)	$15.00	$22.50	$50.67
21 - Prepay Metering Program (General Service)	$22.50	$27.50	$53.09
NM - Residential	$15.00	$22.50	$47.07
NM - General Service Rate	$22.50	$27.50	$117.56

In its application, Grayson RECC proposed to combine Rate Schedule 16 - Small Commercial Demand and Energy Rate (Rate Schedule 16) with Rate Schedule 2 – Commercial and Small Power (Rate Schedule 2). The significance of this change is that Rate Schedule 2 rate does not include a demand charge whereas Rate Schedule 16 does. Through discovery, it was determined that the rate impact upon those receiving service under Rate Schedule 16 would be approximately 30 percent.[90] Grayson RECC determined that the elimination of Schedule 16 would be detrimental to the customer on this schedule, therefore, requested to withdraw the proposed elimination of Schedule 16.[91]

---

[89] Grayson RECC did not provide the COSS rate for Schedule 16. Therefore, Staff estimated it based on the allocated fixed costs found in the COSS filed in response to Staff's Post Hearing Request for Information, Item 10.

[90] Grayson RECC's Response to Staff's Third Request, Item 3.

[91] February 19, 2019 H.V.T. at 3:43:07, Cherry Testimony.

Grayson RECC proposed to eliminate its Rate Schedule 3 - Off-Peak Marketing (Rate Schedule 3) Rate due to its inability to secure repair services for the devices. In addition, Grayson RECC states that it is not receiving the same discount it was receiving at the beginning of the program. The Commission agrees with the request to eliminate Rate Schedule 3. Grayson RECC should notify all Rate Schedule 3 customers of the proposed change in the effective date and provide detailed information concerning options available and what is and is not the customer's responsibility. As part of that notice, Grayson RECC should inform affected customers of the availability of Rate Schedule 10 – Residential Time of Day. Grayson RECC should also include a comparison of an average monthly bill for a customer on Rate Schedule 3 at the approved Rate Schedule 1 rate and at the approved Rate Schedule 10 rate, as well as information on how to change to Rate Schedule 10 if the customer chooses.

Grayson RECC also proposed to move Rate Schedule 5 – Street Lighting Service to Rate Schedule 6 – Outdoor Lighting Service so as to combine the lighting rates. The Commission finds the proposed combination Rate Schedule 5 to Rate Schedule 6 to be reasonable.

The Attorney General stated that the proposed residential customer charge should be set at a rate that incentivizes customer conservation, noting that increased customer charges have a disproportionate impact on those ratepayers who use less electricity than the system average.[92] The Attorney General argued that Grayson RECC relies too much on the customer charge and focused on reducing Grayson RECC's overall risk without considering the needs of its member-owners and urges the Commission to approve a

[92] Attorney General's Post-Hearing Brief, at 2–3.

lower fixed charged.[93] In response, Grayson RECC argued increasing the energy charge, rather than the customer charge, would disproportionately affect members who use greater amounts of electricity. Grayson RECC argued that increasing the customer charge would mean that any disproportionate impact on ratepayers who use less electricity is minimal and that any increase in rates has a disproportionate effect on some portion of a member class. Grayson RECC argued that the increase it proposes would have a minimal impact on a member's incentive to conserve and the lesser impact on low-income members.[94]

As shown in the table above, Grayson RECC's proposed Customer Charge increase is supported by its revised COSS. The Commission also observes that, for an electric cooperative that is strictly a distribution utility, there is merit in providing a means to guard against revenue erosion that often occurs due to the decrease in sales volumes that accompanies poor regional economics and changes in weather patterns.[95] 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. In this case, however, the proposed residential customer charge will also be the largest amongst the 16 distribution cooperatives in the EKPC system.[96] It has been shown that Grayson RECC is faced with a challenging service territory in terms of economics, size, and landscape. And, as noted throughout this order, Grayson RECC is not proactively managing its costs,

---

[93] *Id.* at 4–5.

[94] Post-Hearing Brief on Behalf of Grayson Rural Electric Cooperative Corporation (Grayson RECC Post-Hearing Brief) at 4-7 (March 25, 2019).

[95] Case No. 2017-00374, *Application of Big Sandy Rural Electric Cooperative Corporation for a General Adjustment of Existing Rates* (Ky. PSC 26, 2018) Final Order 11–12.

[96] Grayson RECC's Response to Staff's Post Hearing Request, Item 21.

specifically in terms of employee wages and salary increases, health benefits, and retirement benefits. Therefore, the Commission believes that capping the residential increase to match the most recent distribution cooperative order at $21.25 is more appropriate at this time.[97] If more prudent management decisions had been implemented, Grayson RECC may not have suffered the financial difficulties that have led it to request a customer charge increase that would rank it as the most expensive among its fellow members of EKPC.

As noted above, the Commission found that Grayson RECC's revenue requirement is lower than that proposed by Grayson RECC. The Commission's reduction in the revenue requirement will be allocated proportionally based upon the proposed revenue allocation, as revised through discovery, by applying the decrease to the volumetric charges.

SUMMARY

The Commission, pursuant to the authority in KRS 278.255(2), finds that a management audit is appropriate and should be performed. The management audit will review all aspects of Grayson RECC's management, including its strategies and planning procedures and its organizational structure, as well as the role of Grayson RECC's Board of Directors. The management audit will also review all aspects of Grayson RECC's member services organization, its financial management, and human resource and support functions. The management audit will investigate the potential for efficiencies to be achieved and costs to be saved through consolidation of services or merging with another cooperative.

---

[97] *Supra, ft. nt.* 93, Case No. 2017-00374.

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

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

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

3. The rate of return and TIER granted herein will provide for Grayson RECC's financial obligations.

4. The Commission, by separate Order, should initiate a management audit of Grayson RECC.

IT IS THEREFORE ORDERED that:

1. The rates proposed by Grayson RECC are denied.

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

3. A management audit pursuant to KRS 278.255(2) shall be initiated and performed pursuant to a separate Order entered in a separate case.

4. Within 20 days of the date of entry of this Order, Grayson RECC shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and reflecting their effective date and that they were authorized by this Order.

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

By the Commission

ENTERED

MAR 2 8 2019

KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

Gwen R. Pinson

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2018-00272 DATED MAR 28 2019

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

SCHEDULE 1 - DOMESTIC FARM & HOME

Customer Charge (per month)	$ 21.25
Energy Charge (per kWh)	$ 0.10805

SCHEDULE 2 - COMMERCIAL AND SMALL POWER

Customer Charge (per month)	$ 30.00
Energy Charge (per kWh)	$ 0.10805

SCHEDULE 4 LARGE POWER SERVICE - SINGLE AND THREE-PHASE

Customer Charge (per month)	$ 67.50
Demand Charge (per kW)	$ 8.54
Energy Charge (per kWh)	$ 0.06020

SCHEDULE 6 – OUTDOOR LIGHTING SERVICE – STREET LIGHTING INCLUDED

Mercury Vapor Lighting	
7,000 Lumens HPS	$ 12.50
10,000 Lumens HPS	$ 15.00
Flood Lighting	$ 21.45
LED LIGHTING	
3,600 LED Yard Light	$ 12.50
19176 Flood Light	$ 26.00
STREET LIGHTING	
7,000 Lumens HPS	$ 12.50

SCHEDULE 5 – ALL ELECTRIC SCHOOL RATE

Customer Charge per month	$ 37.50
Demand Charge	$ 6.60
Energy Charge per kWh	$ 0.07546

SCHEDULE 10 – RESIDENTIAL TIME OF DAY

Customer Charge (per month)	$ 21.25
Energy Charge (per kWh) On-Peak	$ 0.20201
Energy Charge (per kWh) Off-Peak	$ 0.06500

SCHEDULE 14(a) - LARGE INDUSTRIAL SERVICE

Customer Charge (per month)	$ 566.12
Demand Charge	
Contract Demand (per kW)	$ 7.23
Excess Demand (per kW)	$ 10.50
Energy Charge (per kWh)	$ 0.04646

SCHEDULE 16 – SMALL COMMERCIAL DEMAND & ENERGY RATE

Customer Charge (per month)	$ 30.00
Demand Charge per kW	$ 6.60
Energy Charge (per kWh)	$ 0.06397

SCHEDULE 17 – WATER PUMPING SERVICE

Customer Charge (per month)	$ 45.00
Energy Charge (per kWh) On-Peak	$ 0.13987
Energy Charge (per kWh) Off-Peak	$ 0.07000

SCHEDULE GENERAL SERVICE RATE

Customer Charge (per month)	$ 27.50
Energy Charge (per kWh)	$ 0.14100

SCHEDULE 19 – TEMPORARY SERVICE

Customer Charge (per month)	$ 55.00
Energy Charge (per kWh)	$ 0.10368

SCHEDULE 20 – INCLINING BLOCK RATE

Customer Charge (per month)	$21.25
Energy Charge (per kWh) – First 300	$ 0.08000
Energy Charge (per kWh) – Next 200	$ 0.10000
Energy Charge (per kWh) – Over 500	$ 0.19397

SCHEDULE 21 – PREPAY METERING PROGRAM (RESIDENTIAL)

Customer Charge (per month)	$21.25
Energy Charge (per kWh)	$ 0.10805

SCHEDULE 21 - PREPAY METERING PROGRAM (COMMERCIAL)

Customer Charge (per month)	$ 27.50
Energy Charge (per kWh)	$ 0.14100

SCHEDULE NM - RESIDENTIAL

Customer Charge (per month)	$21.25
Energy Charge (per kW)	$ 0.10805
Received kWh	$ 0.10805

SCHEDULE NM - COMMERCIAL

Customer Charge (per month)	$27.50
Energy Charge (per kW)	$ 0.14100
Received kWh	$ 0.14100

SCHEDULE ENVIROWATTS

Energy Charge (per kW)	$ 0.02750

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2018-00272 DATED MAR 2 8 2019

	Grayson RECC	Grayson Revised	Commission	Difference
Revenues -				
Normalization of Revenues - FAC and ES	(907,226)	(907,226)	(907,226)	0
Normalize Base Rate Revenues	1,255,498	1,255,498	1,255,498	0
Year-End Customer Growth Adjustment - Revenues	(20,308)	(20,308)	(20,308)	0
CATV Attachments	0	0	0	0
Non Recurring charges	0	0	0	0
Sub-total	327,964	327,964	327,964	0
Expenses -				
Normalization of Wages & Salaries	37,041	30,688	30,688	0
Normalization of Payroll Taxes	7,558	7,073	7,073	0
Normalization of Property Taxes	14,166	14,166	14,166	0
Normalization of Depreciation Expense - Clearing Accounts	(354)	2,425	(354)	(2,779)
Normalization of Depreciation Expense	83,100	82,832	83,100	268
Normalization of Interest on Long-Term Debt	276,694	325,335	325,335	0
Adjustment to Interest-Other	(20,343)	(20,343)	(20,343)	0
Adjustment to 401k costs	0	0	0	0
Adjustment to Retirement Benefits	40,157	40,157	40,157	0
Remove test-year donations	(14,805)	(14,805)	(14,805)	0
Adjustment to directors' fees and expenses	(54,415)	(82,126)	(82,126)	0
Normalization of Purchased Power - Base, FAC and ES	(1,645,172)	(1,645,172)	(1,645,172)	0
Adjust certain miscellaneous expenses	(31,868)	(31,868)	(31,868)	0
Adjust Advertising expenses	(783)	(783)	(783)	0
First year amortization of rate case expense	30,000	30,000	24,527	(5,473)
Normalization of PSC Assessment	0	0	(1,002)	(1,002)
Adjust Professional Fees expense	(34,778)	(34,778)	(34,778)	0
Normalization of Life Insurance	0 0	0	(5,269)	(5,269)
Normalization of Health Insurance	0 0	(149,530)	(149,530)	0
Remove G&T capital credits	(504,926)	(504,926)	(504,926)	0
Sub-total	(1,818,730)	(1,951,656)	(1,965,911)	(14,255)
Changes in Net Income	2,146,694	2,279,620	2,293,875	14,255

*Carol Hall Fraley
President & CEO
Grayson R.E.C.C.
109 Bagby Park
Grayson, KY 41143

*Clayton O Oswald
Taylor, Keller & Oswald, PLLC
1306 West Fifth Street, Suite 100
Post Office Box 3440
London, KENTUCKY 40743-3440

*Justin M. McNeil
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Kent Chandler
Assistant Attorney General
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

*Grayson R.E.C.C.
109 Bagby Park
Grayson, KY 41143

*Rebecca W Goodman
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204