

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF SOUTH)	
KENTUCKY RURAL ELECTRIC COOPERATIVE)	
CORPORATION FOR A GENERAL)	CASE NO.
ADJUSTMENT OF RATES, APPROVAL OF)	2021-00407
DEPRECIATION STUDY, AND OTHER GENERAL)	
RELIEF)	

ORDER

On December 14, 2021, South Kentucky Rural Electric Cooperative Corporation (South Kentucky RECC) filed an application seeking approval for a general rate adjustment and approval of a depreciation study.¹ South Kentucky RECC proposed to increase base rates by \$8,685,396, which represents a 7.71 percent increase. South Kentucky RECC proposed to phase in the rate increase in two parts (Phase 1 and Phase 2). The Phase 1 increase would be \$4,336,975. The Phase 2 increase would be \$4,348,421. By Order entered January 10, 2022, the proposed effective date was suspended for five months, up to and including June 13, 2022.

South Kentucky RECC stated the main reasons for the requested rate increase were the substantial increase in costs for essential materials, technology, and labor and substantial decrease in energy sales.²

¹ The Commission initially rejected the application for filing due to certain filing deficiencies. By Order entered January 10, 2022, the Commission granted South Kentucky RECC's request to deviate from certain filing requirements and the application was deemed filed on December 14, 2021.

² Application, Exhibit 1.

The Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General) is the only intervenor in this matter. The parties responded to multiple rounds of discovery and filed direct and rebuttal testimony. On May 10, 2022, a formal hearing was held. South Kentucky RECC filed responses to post-hearing data requests on May 18, 2022. South Kentucky RECC and the Attorney General filed their respective briefs on May 25, 2022, and response briefs on May 31, 2022. This matter now stands submitted for a decision.

BACKGROUND

South Kentucky RECC is a not for profit, member owned, rural electric distribution cooperative organized under KRS Chapter 279. South Kentucky RECC is headquartered in Somerset, Kentucky, and distributes retail electric power to 68,000 member consumers in Adair, Casey, Clinton, Cumberland, Laurel, Lincoln, McCreary, Pulaski, Rockcastle, Russell, and Wayne counties in Kentucky and a small number of customers in Pickett and Scott counties in Tennessee. South Kentucky RECC owns approximately 7,000 circuit miles of distribution lines. South Kentucky RECC purchases power from East Kentucky Power Cooperative, Inc. (East Kentucky). South Kentucky RECC's last general rate adjustment was approved on March 30, 2012.³

LEGAL STANDARD

South Kentucky 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

³ Case No. 2011-00096, *Application of South Kentucky Rural Electric Cooperative Corporation for an Adjustment of Rates* (Ky. PSC Mar. 30, 2012).

reasonable.”⁴ South Kentucky RECC bears the burden of proof to show that the proposed rate is just and reasonable under the requirements of KRS 278.190(3).

TEST PERIOD

South Kentucky RECC, similar to other utilities, experienced unusual and extraordinary revenues and expenses in calendar years 2020 and 2021 due to the COVID-19 pandemic. As a result, South Kentucky RECC proposed the 12-month period ending March 31, 2020, as the test period for determining the reasonableness of its proposed rates. The Attorney General did not object to the proposed test period or suggest an alternative test period. The Commission concludes that it is reasonable to use the 12-month period ending March 31, 2020, 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 March 31, 2020, 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.⁵

REVENUE REQUIREMENT

Revenues and Expenses

Restate Test-Year Annualization of Operating Expenses Related to Revenues Annualization. South Kentucky RECC proposed an adjustment to annualize revenue and operating expenses to reflect its test-year-end customer count. To calculate the expense

⁴ KRS 278.030; *Pub. Serv. Comm'n v. Com. ex rel. Conway*, 324 S.W.3d 373, 377 (Ky. 2010).

⁵ 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.”).

portion of the adjustment, South Kentucky RECC used an operating ratio of 84.66 percent multiplied by the calculated revenue increase.⁶ The operating ratio was determined by comparing operating expenses less salaries and wages and employee benefits.⁷ The Attorney General's witness Lane Kollen proposed to decrease the operating ratio based on the premise that only expenses that vary with customer count or kWh sales should be included and therefore fixed expenses should be excluded.⁸ Kollen argued that only purchased power and environmental surcharge expenses should be included in the operating ratio, which results in an operating ratio of 71.0 percent.⁹ Kollen also argued that in its rate case, Jackson Purchase Energy Corporation (Jackson Purchase) only used incremental purchased power and rider expenses to calculate the incremental expenses for its customer annualization adjustment.¹⁰ The revenue requirement impact of Kollen's adjustment was a reduction of \$73,119.

South Kentucky RECC argued that its calculation of the operating ratio is consistent with Commission precedent and that Kollen misconstrued various data responses to address year-end customer count when the responses related to kWh sales.¹¹ South Kentucky RECC argued that fixed expenses do vary with customer count

⁶ Direct Testimony of William Steven Seelye (Seelye Direct Testimony), Exhibit WSS-4, Schedule 2.10.

⁷ Seelye Direct Testimony, Exhibit WSS-4, Schedule 2.10.

⁸ Direct Testimony of Lane Kollen (Kollen Direct Testimony) (filed Mar. 9, 2022) at 6–8.

⁹ Kollen Direct Testimony at 7–8.

¹⁰ Kollen Direct Testimony at 7. See Case No. 2021-00358, *Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment of Rates and Other General Relief* (Ky. PSC Apr. 8, 2022) Application, Schedule 1.11.

¹¹ Rebuttal Testimony of Williams Steven Seelye (Seelye Rebuttal Testimony) (filed Apr. 13, 2022) at 9.

because South Kentucky RECC must install facilities to serve new customers, which results in increased costs beyond purchased power expense, such as conductor, transformer, service line, and meter expenses.¹² South Kentucky RECC further argued that Jackson Purchase's decision to utilize a less inclusive operating ratio has no bearing on the operating ratio for South Kentucky RECC.¹³

While Jackson Purchase's operating ratio was accepted as filed, the Commission made no finding of fact regarding the preferred methodology for the annualization of year-end customer count. South Kentucky RECC's proposed adjustment recognizes that an increase in customer count will increase operating expenses beyond purchased power and associated riders. The Commission therefore finds that South Kentucky RECC's proposed adjustment is reasonable and is approved. The Commission further finds that Kollen's proposed adjustment to limit the incremental expenses to purchased power is not supported by the record and is not accepted.

Reflect Reduction in Temporary Staffing Costs. South Kentucky RECC stated in its application that the elimination of temporary staffing positions at its district office locations resulted in savings of approximately \$180,000 annually.¹⁴ Kollen argued that annualized actual savings since the end of the test-year amounted to \$107,138 and should be used to reduce operating expenses and the revenue requirement.¹⁵

¹² Seelye Rebuttal Testimony at 10.

¹³ Seelye Rebuttal Testimony at 11.

¹⁴ Direct Testimony of Kenneth E. Simmons (Simmons Direct Testimony) at 8.

¹⁵ Kollen Direct Testimony at 8–9.

South Kentucky RECC argued that the reduction in temporary staffing assistance was an extraordinary, temporary cost-containment measure which South Kentucky RECC undertook to reduce its expenses while its district offices' lobbies were closed during the COVID-19 pandemic and not a permanent cost reduction on a going forward basis.¹⁶ South Kentucky RECC stated that it plans to reinstate the temporary staffing assistance positions after the pendency of this case.¹⁷ The Attorney General argued that all unfilled positions, including most temporary staffing positions and three vacant full-time positions, should be excluded from the revenue requirement but did not quantify this adjustment.¹⁸

South Kentucky RECC included an adjustment to remove positions from the test-year that were vacant due to attrition and will be eliminated.¹⁹ The remaining positions included in the test-year are intended to be filled to serve South Kentucky RECC's members, including the temporary staffing assistance. South Kentucky RECC's proposed staffing costs are reasonable and are thus approved. The Commission finds that the Attorney General's proposed adjustment to remove vacant positions is not reasonable and is not accepted.

Remove Capitalized Portion of Salaries and Wages Adjustment. South Kentucky RECC proposed an adjustment to annualize test-year wages and salaries, which was

¹⁶ Seelye Rebuttal Testimony at 12.

¹⁷ Rebuttal Testimony of Michelle D. Herrman (Herrman Rebuttal Testimony) (filed Apr. 13, 2022) at 4.

¹⁸ Attorney General's Post-Hearing Brief at 24–26.

¹⁹ See Seelye Direct Testimony, Exhibit WSS-4, Schedule 2.01.

determined using the budgeted amounts for 2019, 2020, and 2021, excluding overtime.²⁰ South Kentucky RECC did not exclude any portion of the proposed increase to account for wages and salaries that will be capitalized as part of South Kentucky RECC's plant in service and expensed as it is depreciated. Kollen proposed an adjustment to reduce South Kentucky RECC's proposed adjustment to account for the capitalized portion, based on the average capitalization percentage for the test-year, which resulted in a revenue requirement decrease of \$94,460.²¹ South Kentucky RECC argued that the capitalization ratio is inappropriate because it does not include overtime labor and does not reflect the capitalization ratios at the granular job position level.²²

A portion of the wages and salaries adjustment must be attributed to capitalized costs. South Kentucky RECC did not argue that an adjustment to remove the capitalized portion was unnecessary, rather only that the capitalization ratio used by Kollen was inappropriate. South Kentucky RECC did not prepare its wages and salaries adjustment by job position, such that the granular approach is not accessible. Based upon historical capitalization ratios, the Commission finds that a test-year capitalization ratio of 33.22 percent²³ is appropriate, which results in a revenue requirement decrease of \$80,839.

Adjust Nonrecurring Charges and Pole Attachment Fees. As detailed later in this Order, the Commission made an adjustment to the nonrecurring charges to eliminate

²⁰ Seelye Direct Testimony, Exhibit WSS-4, Schedule 2.01, and Herrman Rebuttal Testimony at 5.

²¹ Kollen Direct Testimony at 9–10.

²² Herrman Rebuttal Testimony at 5–6, Seelye Rebuttal Testimony at 13, and South Kentucky RECC's Post-Hearing Brief at 22–23.

²³ See South Kentucky RECC's Response to Commission Staff's Post-Hearing Request for Information (Staff's Post-Hearing Requests) (filed May 18, 2022), Item 2. The capitalization ratios for 2019 and 2020 were 32.91% and 34.16% respectively.

labor from the cost support calculations. The Commission also adjusted the pole attachment rates to recognize the updated cost support based on current expenses. This results in decrease in other revenue and corresponding revenue requirement increase of \$64,050.

Rate Case Expense. South Kentucky RECC proposed to increase its test-year expenses by \$62,000 for the three-year amortization of estimated rate case expenses of \$186,000.²⁴ On May 31, 2022, South Kentucky RECC filed an update that stated it had expended \$405,272 for rate case expenses through May 2022, which included South Kentucky RECC's internal labor, legal services, and consultants' fees for South Kentucky RECC's revenue requirement and rate design.²⁵ The Attorney General argued and South Kentucky RECC agreed that internal labor of approximately \$67,000 should not be recovered in rate case expense.²⁶ 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 South Kentucky RECC's May 31, 2022 filing fairly represented the total costs to prepare and fully litigate this proceeding once the internal labor is removed. Recovery of internal labor as rate case expense is unreasonable and unnecessary. Therefore, the Commission finds that rate case expense should be increased to \$346,365 amortized over three years, to reflect the actual rate case expenses. This adjustment results in a test-year amortization expense of \$115,455, a revenue requirement increase of \$53,455. However, the Commission would note that South Kentucky RECC's rate case

²⁴ Simmons Direct Testimony at 11 and Seelye Direct Testimony, Exhibit WSS-4, Schedule 2.09.

²⁵ See South Kentucky RECC's Supplemental Response to Commission Staff's First Request for Information (Staff's First Request) (filed May 31, 2022), Item 37.

²⁶ Attorney General's Post-Hearing Brief at 28 and South Kentucky RECC's Reply Brief at 9.

expense is significantly higher than initially estimated, and as compared to the amounts expended by comparable utilities in recent rate proceedings. In any subsequent rate proceeding, South Kentucky RECC should take actions to ensure a reasonable amount of rate case expense is incurred in supporting its applications.

Health Insurance Contributions. South Kentucky RECC provides 100 and 79 percent of single and family health insurance premiums, respectively.²⁷ South Kentucky RECC provided the adjustment necessary to remove employer health insurance benefit contributions in excess of the Bureau of Labor Statistics' 2021 average for single and family coverage of 78 and 66 percent, respectively.²⁸ The Commission finds that a revenue requirement reduction of \$307,481 is appropriate to limit employer insurance benefit contribution rates to a more reasonable level.

Reflect Decrease in PSC Assessment Fees. Based on the revenues found reasonable herein, the Commission finds that a reduction to the PSC Assessment fees of \$5,871 is reasonable and is approved.

Depreciation Rates. South Kentucky RECC's existing depreciation rates were set in 2011 and have remained unchanged for almost ten years.²⁹ South Kentucky RECC submitted a current depreciation study in conjunction with its application in this case and requested a depreciation deduction of \$9,600,214, a \$522,000 increase over the actual test-year depreciation expense. This included a proposed change to normalize the test-

²⁷ South Kentucky RECC's Response to Staff's First Request (filed Dec. 23, 2021), Item 23.

²⁸ South Kentucky RECC's Response to Commission Staff's Third Request for Information (Staff's Third Request) (filed Mar. 3, 2022), Item 5.

²⁹ Case No. 2011-00096, *Application of South Kentucky Rural Electric Cooperative Corporation for an Adjustment of Electric Rates* (Ky. PSC Mar. 30, 2012).

year depreciation and to reflect the revised depreciation rates developed in the depreciation study.³⁰

Based upon the case record, the Commission finds that the depreciation study is reasonable and is approved. To facilitate more timely updates to the depreciation rates, the Commission will require South Kentucky RECC to perform a depreciation study within five years from the date of this Order, or with the filing of its next base rate case, whichever occurs earlier.

Times Interest Earned Ratio (TIER) Calculation

Correct Error in TIER Calculation in Application. South Kentucky RECC's application stated that its test-year long-term debt interest expense was \$5,814,280, its test-year operating margins were (\$1,558,898), its requested increase was \$8,685,396, and its adjusted operating margins after its proposed increase was \$5,724,542.³¹ Kollen stated that the TIER calculation included a rounding error which when corrected increased the revenue requirement by \$89,738.³² South Kentucky RECC accepted this adjustment.³³

Although Kollen calculated a rounding error based on the difference between the test-year long-term debt interest expense of \$5,814,280 and adjusted operating margins of \$5,724,542 after the proposed increase, South Kentucky RECC's requested revenue increase using the figures from the application, temporarily accepting South Kentucky

³⁰ Seelye Direct Testimony, Exhibit WSS-4, Schedule 2.11.

³¹ Seelye Direct Testimony, Exhibit WSS-2 and Exhibit WSS-3, Schedule 1.1 at 1.

³² Kollen Direct Testimony at 34, footnote 51. The rounding error is calculated as the difference between test-year long-term debt interest expense of \$5,814,280 and adjusted operating margins of \$5,724,542.

³³ Seelye Rebuttal Testimony at 15.

RECC's argument that non-operating margins should be excluded, should have been \$7,373,178, using its test-year long-term debt interest expense of \$5,814,280 and its test-year operating margins of (\$1,558,898). Therefore, the Commission finds that an adjustment to reduce the revenue requirement by \$1,312,218 is necessary to reflect the appropriate requested increase based upon the financial information contained in South Kentucky RECC's application.

Include Interest Income and Other Non-Operating Margins in Net Margins Used to Determine TIER. South Kentucky RECC excluded all non-operating margins from its TIER calculation. Kollen argued that this exclusion effectively meant that South Kentucky RECC calculated its requested increase based on Operating Times Interest Earned Ratio (OTIER) instead of TIER.³⁴ Kollen argued that interest income, non-operating margins, capital credits, and dividends are included in the definition of TIER for South Kentucky RECC's loan covenants and should be reflected in the TIER calculation for base rates.³⁵ Kollen recommended that test-year interest income of \$1,683,736, non-operating margins of \$115,206, and other capital credits and dividends of \$135,552 be included in the TIER calculation.³⁶

South Kentucky RECC argued that these non-operating margins are non-cash items that are properly excluded from the TIER calculation, consistent with Commission precedent of excluding generation and transmission capital credits from the TIER

³⁴ Kollen Direct Testimony at 10.

³⁵ Kollen Direct Testimony at 11–12.

³⁶ Kollen Direct Testimony at 12–14.

calculation.³⁷ South Kentucky RECC further argued that interest income from the Cushion of Credit should be excluded from the TIER calculation because those funds are restricted and may only be applied to Rural Utility Services (RUS) debt payments.³⁸

South Kentucky RECC also proposed to reduce the test-year Cushion of Credit interest income by \$1,401,979, based on the revised interest rate of the October 2021 1-year treasury rate of 0.09 percent.³⁹ The Federal Farm Bill was updated in 2018 and gave RUS/FFB borrowers the option to prepay their RUS/FFB debt with their Cushion of Credit with no prepayment penalties and also reduced the interest rates for the Cushion of Credit from five percent to four percent beginning October 1, 2020, and to the 1-year variable treasury rate on October 1 of each year thereafter.⁴⁰ South Kentucky RECC chose to retain its Cushion of Credit based on its blended long-term RUS/FFB debt rate of 2.90 percent and the long-term average 1-year variable treasury rate of 2.86 percent.⁴¹ South Kentucky RECC argued that 2.86 percent was the appropriate interest rate to determine whether or not to retain the Cushion of Credit or pay down South Kentucky RECC's RUS debt without penalty.⁴² The 1-year treasury rate as of May 10,

³⁷ South Kentucky RECC Reply Brief at 3–4.

³⁸ South Kentucky RECC Reply Brief at 3–4

³⁹ Direct Testimony of Michelle D. Herrman (Herrman Direct Testimony) at 8 and Seelye Direct Testimony, Exhibit WSS-2.

⁴⁰ Herrman Direct Testimony at 8 and South Kentucky RECC's Response to Staff's Second Request for Information (Staff's Second Request) (filed Feb. 2, 2022), Item 1.

⁴¹ Herrman Direct Testimony at 8, South Kentucky RECC's Response to Staff's Second Request, Item 1, and South Kentucky RECC's Response to Staff's Fourth Request for Information (Staff's Fourth Request) (filed Apr. 19, 2022), Item 1(e)(2).

⁴² Herrman Rebuttal Testimony at 9.

2022, the date of the hearing, was 2.01 percent.⁴³ The 1-year variable treasury rate on October 1, 2021, when the new rate was fully phased in, was 0.09 percent.⁴⁴ South Kentucky RECC can now only use the Cushion of Credit for regularly scheduled debt service payments without penalty; South Kentucky RECC cannot prepay RUS debt with the Cushion of Credit without exiting the RUS program.⁴⁵

Kollen argued that the known reduction in the interest rate should have prompted South Kentucky RECC to prepay its RUS/FFB debt with the Cushion of Credit, due to the size of the Cushion of Credit, \$29.164 million compared to total RUS debt of \$179,452 million, and the rates of its RUS/FFB debt, the highest of which was 3.699 percent.⁴⁶ The Attorney General recommended that the Commission either (1) require South Kentucky RECC to ask RUS for a waiver to use its Cushion of Credit to prepay RUS debt, with a rate reduction if the efforts are successful, (2) use a lower TIER for long-term debt equal to the Cushion of Credit, or (3) set the Cushion of Credit at a rate higher than the 0.09 percent used by South Kentucky RECC.⁴⁷

The Commission has historically excluded generation and transmission capital credits from the TIER calculation because those capital credits are either cash receipts passed back to the cooperatives' members through non-base rate mechanisms or are non-cash allocations that do not offset other financing. The Commission has historically

⁴³ https://ycharts.com/indicators/1_year_treasury_rate

⁴⁴ Herrman Direct Testimony at 8.

⁴⁵ South Kentucky RECC's Response to Staff's Third Request, Item 8.

⁴⁶ Kollen Direct Testimony at 24–30.

⁴⁷ Attorney General's Post-Hearing Brief at 17.

included all other non-operating margins in the TIER calculation.⁴⁸ South Kentucky RECC proposed to remove all non-operating margins from its TIER calculation, despite some items being cash receipts and all non-operating items being included in the TIER calculation for its loan covenants.⁴⁹ Additionally, South Kentucky RECC argued that its utilization of the Cushion of Credit provided it with greater flexibility and that the interest income would be used to reduce cash necessary for debt service payments, freeing up cash that would have been used for those payments for other investments, which would produce interest income.⁵⁰

As South Kentucky RECC stated in its application, interest income reduces the difficulty of achieving the TIER ratio requirement of its loan covenants, by increasing its net margins used to calculate TIER.⁵¹ South Kentucky RECC argued that retaining the Cushion of Credit was to the benefit of its customers. Additionally, the Commission is already awarding a TIER that provides ample margins to achieve the TIER requirements. Excluding non-operating margins from the TIER calculation, with the exception of the generation and transmission capital credits, would include an excessive layer of insulation for South Kentucky RECC to achieve its target TIER and is inconsistent with Commission precedent. The Commission agrees with the Attorney General that these non-operating margins should be included in the TIER calculation so that South Kentucky RECC's

⁴⁸ See Case No. 2017-00374, *Application of Big Sandy Rural Electric Cooperative Corporation for a General Adjustment of Existing Rates* (Ky. PSC Apr. 26, 2018), Case No. 2018-00272, *Application of Grayson Rural Electric Cooperative Corporation for an Adjustment of Rates* (Ky. PSC Mar. 28, 2019) and Case No. 2021-00358, *Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment of Rates and Other General Relief* (Ky. PSC Apr. 8, 2022).

⁴⁹ South Kentucky's Response to Staff's Post-Hearing Request, Item 13.

⁵⁰ Hearing Video Transcript (HVT) of the May 10, 2022 Hearing at 11:23-11:31.

⁵¹ Simmons Direct Testimony at 8.

ratepayers receive the benefit of South Kentucky RECC's investments. For these reasons, the Commission finds that South Kentucky RECC's TIER calculation should be based on net margins which include \$1,312,218 on interest income, \$566,271 of other non-operating margins, and \$115,206 of other capital credits and dividends. The overall result is a revenue requirement reduction of \$817,030.

Long-term Debt Interest Rate

Remove Double Count of LTD Interest Expense Related to the Feb 2020 Issuance.

Kollen argued that South Kentucky RECC double counted interest expense from a new debt issuance on February 7, 2020, that was already included in the test-year interest expense.⁵² South Kentucky RECC stated that the adjustment was not necessary but did not explain beyond agreeing to the same amount on a different adjustment.⁵³ The Commission agrees that the Attorney General's proposed adjustment is reasonable and necessary. Interest expense for the new debt was included in South Kentucky RECC's income statement for the test-year and in the annualization of the interest expense. The resulting revenue requirement reduction is \$29,874.

Reflect Annualization of LTD Interest Expense Based on Debt Outstanding at March 31, 2020. Kollen argued that South Kentucky RECC should have used the long-term debt outstanding as of the end of the test-year to annualize the interest expense. South Kentucky RECC argued that using the end of period balance negates the purpose of the historical test period and should include future borrowing, namely the \$10 million

⁵² Kollen Direct Testimony.at 19.

⁵³ Herrman Rebuttal Testimony at 7–8.

note issued on January 20, 2022.⁵⁴ South Kentucky RECC's test-period ended March 31, 2020. South Kentucky RECC's long-term debt interest expense for January 2022 through April 2022 was substantially lower than the test-year expense due to reductions in the principal during 2021.⁵⁵ Including the new note without updating the principal balances does not appropriately reflect South Kentucky RECC's interest expense. South Kentucky RECC's customer revenues and depreciation expense were similarly annualized based on the end of period number. The Commission finds that the long-term interest expense should be annualized using the balance as of March 31, 2020. The resulting revenue requirement reduction is \$437,805.

Reflect Company Admitted Error in the Interest Expense Annualization for New Debt Issues. South Kentucky RECC admitted an error in the annualization of interest expense for debt issuance in February and March 2020.⁵⁶ The Commission finds that this adjustment is reasonable and is approved. The resulting revenue requirement reduction is \$31,883.

Correct Further the Company's Interest Expense Annualization for New Debt Issues. Kollen argued that South Kentucky RECC included five quarters of interest expense in the annualization of the new debt issuances in February and March 2020, which South Kentucky RECC admits.⁵⁷ South Kentucky RECC argued that only this

⁵⁴ Herrman Rebuttal Testimony at 7–8.

⁵⁵ South Kentucky RECC's Supplemental Response to the Attorney General's First Request (filed May 9, 2022), Item 36.

⁵⁶ Kollen Direct Testimony at 19 and South Kentucky RECC's Response to the Attorney General's First Request for Information (Attorney General's First Request), Item 46(a).

⁵⁷ Kollen Direct Testimony at 20 and South Kentucky RECC's Response to the Attorney General's First Request, Item 46(c).

adjustment should be made, because the amounts were also included in the test-year, and the prior adjustment to remove these amounts is sufficient.⁵⁸ However, this adjustment is an addition to the test-year interest expense, so not only must the test-year amount be removed, the adjustment must only contain 12 months of interest expense on these notes, not the five quarters included in the application.⁵⁹ The amounts are the same because the extra amount included in the test-year and the adjustment is the same. The Commission finds that this adjustment is reasonable and is approved. The resulting revenue requirement reduction is \$35,755.

TIER

In its application, South Kentucky RECC proposed a TIER of 2.00.⁶⁰ Kollen argued that a maximum 1.50 TIER is reasonable, because it is well in excess of the required TIER pursuant to its loan agreements and will still allow growth of members' equity of 1.95 percent annually.⁶¹ South Kentucky RECC asserted that Kollen's recommended 1.50 TIER was unreasonable because it does not account for financial contingencies, did not account for other financial metrics, and that the Commission recently found a 2.00 TIER reasonable for Jackson Purchase.⁶² The Attorney General reiterated in its brief that a 2.00 TIER is excessive in comparison to what is required by its loan covenants.⁶³

⁵⁸ Herrman Rebuttal Testimony at 7-8.

⁵⁹ See Seelye Direct Testimony, Exhibit WSS-4, Schedule 2.08, and South Kentucky RECC's Response to the Attorney General's First Request, Item 46(c).

⁶⁰ Application at paragraph 4.

⁶¹ Kollen Direct Testimony at 39.

⁶² Seelye Rebuttal Testimony at 16–17.

⁶³ Attorney General's Post-Hearing Brief at 7.

As Seelye pointed out in his rebuttal testimony, there is significant Commission precedent that a 2.00 authorized TIER has been consistently applied in electric coop cases for many years.⁶⁴ However, the Commission notes that the calculation of the target TIER is reliant on the debt rates associated with the utility making the request. Debt rates are subject to market conditions at the time the indebtedness is entered and agreed upon. If the Commission were to authorize a TIER lower than 2.00, South Kentucky RECC would have less cash working capital, specifically on its newer, lower interest indebtedness, which could impair South Kentucky 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, South Kentucky RECC's cash flow and operating margin would be reduced beyond a reasonable level.

Revenue Requirement Summary

After considering the pro forma adjustments discussed above, South Kentucky RECC's adjusted revenue requirement increase from base rates is \$5,744,145. A chart containing a summary of the revenue requirement, as proposed by South Kentucky RECC and as modified herein, is attached to this Order as Appendix A.

⁶⁴ Seelye Rebuttal Testimony at 19–20.

PRICING AND TARIFF ISSUES

Cost-of-Service Study

South Kentucky RECC filed a fully allocated cost-of-service study (COSS), in order to determine the cost to serve each rate class. The COSS allocated purchased power based upon the average of the 12 coincident peaks.⁶⁵ For the distribution components, the zero intercept was used for the overhead conductors, underground conducts, and transformers.⁶⁶ For the poles, South Kentucky RECC applied the allocation for the Over Conductor as a proxy.⁶⁷ This COSS determined South Kentucky 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.⁶⁸ Having reviewed South Kentucky RECC's COSS, the Commission finds it to be acceptable for use as a guide in allocating the revenue increase granted herein. The Attorney General did not comment on the COSS.

Revenue Allocation and Rate Design

The COSS illustrated that, based upon the rate class's rate of return (ROR) on rate base, the Residential, all Electric Schools, and, to a small degree, the Large Power Rate 3 rate classes contribute negatively to their cost to serve while all other rate classes contribute significantly more than their cost to serve, as the rate of return (ROR) on rate base is shown below.⁶⁹

⁶⁵ Seelye Direct Testimony, Exhibit WSS-8, page 24 of 36.

⁶⁶ Seelye Direct Testimony at 28.

⁶⁷ Seelye Direct Testimony, Exhibit WSS-7 page 32 of 33.

⁶⁸ Seelye Direct Testimony at 2.

⁶⁹ Seelye Direct Testimony at 34 and WSS-13.

<u>Current Rates</u>	<u>ROR on Rate Base</u>	<u>Unitized ROR</u>
Residential, Farm, & Non-Farm Service	(1.88%)	(1.33)
Small Commercial	6.88%	4.88
Large Power	10.20%	7.23
Optional Power Service	10.98%	7.79
All Electric Schools	(3.65%)	(2.59)
Large Power Rate 1	740.66%	525.29
Large Power Rate 2	252.25%	178.90
Large Power Rate 3	(0.78%)	(0.55)
Lighting	<u>10.34%</u>	<u>7.33</u>
TOTAL	1.41%	1.00

For the revenue allocation, South Kentucky RECC relied upon the COSS but with the condition that the residential increase would not be greater than 10.0 percent.⁷⁰ Due to this constraint and the overall proposed revenue increase, South Kentucky RECC had to propose some sort of increase for each rate class. Given these constraints, for the balance of the other rate classes, the rate increase was approximately 4.0 percent but for Large Power Rates 1 and 2, which indicate a higher rate of return, the increase was capped at 1.0 percent.⁷¹ The Attorney General did not comment on the revenue allocation.

<u>Customer Class</u>	<u>Increase</u>	<u>Proposed ROR</u>	<u>Unitized ROR</u>
Residential, Farm, & Non-Farm	9.8%	3.16%	0.55
Residential ETS	1.7%	-	-
Small Commercial	4.0%	8.84%	1.54
Large Power	4.1%	13.66%	2.38
Optional Power Service	4.0%	13.13%	2.29
All Electric Schools	11.8%	1.63%	0.28
Large Power Rate 1	1.0%	784.13%	136.52
Large Power Rate 2	1.0%	271.12%	47.20
Large Power Rate 3	4.9%	4.03%	0.70
Lighting	<u>4.0%</u>	<u>11.38%</u>	<u>1.98</u>
Total System	7.7%	5.74%	1.00

⁷⁰ Seelye Direct Testimony at 34.

⁷¹ Seelye Direct Testimony at 34.

South Kentucky RECC proposed to phase in the total revenue increase in two phases. The first phase would allocate 50.0 percent of the revenue increase and 12 months later, the second phase will allocate the remaining revenue increase, and based upon South Kentucky RECC’s application, result in TIERS of 1.2 and 2.0, respectively.⁷² The Attorney General requested to maintain the phased-in approach of approximately two equivalent amounts.⁷³ In rebuttal, South Kentucky RECC requested to eliminate the phase-in approach if the approved increase were less than \$6.000 million.⁷⁴

The Commission will adopt South Kentucky RECC’s proposed revenue allocation in which the increase will be allocated amongst all rate classes. However, in lieu of a 10.0 percent cap for the residential class and a one percent increase for the Large Power Rates 1 and 2, the Commission will lower the proposed rate class revenue increases by the same percent that the overall proposed revenue increase is lowered. Therefore, based on the overall requested revenue increase of \$8,669,257 and the revised revenue increase approved herein of \$5,744,145, the Commission will lower the class revenue increases by 33.9 percent.⁷⁵ This results in the following class revenue allocation and ROR on rate base:⁷⁶

<u>Customer Class</u>	<u>Increase</u>	<u>Revenue Increase</u>	<u>ROR</u>	<u>Unitized ROR</u>
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⁷² South Kentucky RECC’s Response to Staff’s Second Request, Item 24.

⁷³ Kollen Direct Testimony at 4.

⁷⁴ Seelye Rebuttal Testimony at 28 South Kentucky RECC’s Post Hearing Brief at 3.

⁷⁵	Commission approved revenue increase	\$5,744,145		
	South Kentucky RECC proposed revenue increase	<u>\$8,685,396</u>		
	Difference		(\$2,941,251)	
			(33.89%)	

⁷⁶ Due to rounding, these results are approximate.

Residential, Farm, & Non-Farm	6.55%	\$4,860,927	3.32%	0.58
Residential ETS	1.15%	3,523	-	-
Small Commercial	2.70%	210,035	9.92%	1.73
Large Power	2.79%	430,066	11.11%	1.93
Optional Power Service	2.73%	40,406	11.67%	2.03
All Electric Schools	7.99%	66,188	0.15%	0.03
Large Power Rate 1	0.69%	5,397	724.48%	126.09
Large Power Rate 2	0.68%	34,946	241.98%	42.12
Large Power Rate 3	3.31%	135,670	2.20%	0.38
Lighting	<u>2.71%</u>	<u>102,479</u>	<u>11.34%</u>	<u>1.97</u>
Total System	5.23%	5,889,636	5.74%	1.00

Regarding the proposed two year phase-in, the Commission is not against phasing in rates, but believes that in the instant case a phase in is not necessary as maintaining financial metrics and cash flow is a priority and reaching these sooner than later is in the best interest of South Kentucky RECC's members. Therefore, the Commission finds that the rates will not be phased-in over two years.

Rate Design

South Kentucky RECC relied on the COSS to the maximum extent reasonable in setting the customer, energy, and demand charges.⁷⁷ South Kentucky RECC proposed to increase the residential customer charge from \$13.29 to \$24.00, an 80.6 percent increase. The COSS resulted in an estimated customer charge of \$26.41 and this increase is based upon using the overhead conductor customer and demand allocations for poles.⁷⁸ Removing this proxy and placing the allocation for poles as 100 percent demand results in a residential charge of \$24.08.

⁷⁷ Seelye Direct Testimony at 35.

⁷⁸ Seelye Direct Testimony at 35 and WSS-8, page 35 of 36.

The Attorney General maintained that South Kentucky RECC's proposed 80.6 percent increase to the residential monthly customer charge is unreasonable.⁷⁹ The Attorney General expressed concern that such a large increase will hinder residential customers' ability to control their monthly electric bills, and pose a financial hardship on customers who may already be struggling, especially with the average poverty rate in South Kentucky RECC's service territory being one of the highest in the nation.⁸⁰ The Attorney General maintained that if the Commission were to grant an increase, to follow the precedent of gradualism and consider ratepayer affordability, and if a charge of \$24 was to be awarded, to allow for a two-year phase in of \$18.64 and \$24, respectively.⁸¹

South Kentucky RECC maintained that the proposed increase to the residential charge is reasonable and disagrees with the Attorney General's position.⁸² South Kentucky RECC noted that the Attorney General failed to offer independent COSS evidence that illustrates that the requested customer charge is unreasonable, did not provide any calculations from South Kentucky RECC's COSS illustrating that the \$24 customer charge is not supported, or address the customer charge in the filed testimony of Mr. Kollen.⁸³ South Kentucky RECC further argued that the Attorney General's assertion that a higher customer charge will harm low-income customers is without support in the case record.⁸⁴ Finally, South Kentucky RECC claimed that the proposed

⁷⁹ Attorney General's Post Hearing Brief at 3.

⁸⁰ Attorney General's Post Hearing Brief at 3 and 4.

⁸¹ Attorney General's Post Hearing Brief at 4 and 5.

⁸² South Kentucky RECC's Final Reply Brief at 1–2.

⁸³ South Kentucky RECC's Final Reply Brief at 2.

⁸⁴ South Kentucky RECC's Final Reply Brief at 2.

customer charge increase does not violate the principle of gradualism arguing that gradualism should be considered through the lens of the totality of the monthly bill, not the components.⁸⁵

The Commission 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 sale volumes that accompanies poor regional economics and changes in weather patterns. The Commission has consistently been in favor of raising the customer charge in utility rate cases to reflect the fixed costs inherent in providing utility service. The Commission also notes that an increase of almost 81.0 percent is not a measured movement towards cost-based rates. Therefore, the Commission finds that the proposed increase to the customer charge is unreasonable and finds that a customer charge of \$17 to be a gradual step towards cost-based rates and is reasonable. The Commission approves the proposed rate design for the non-residential classes.

Nonrecurring Charges

In recent decisions, the Commission has found that as district personnel are currently paid during normal business hours, estimated labor costs previously included in determining the amount of nonrecurring charges should be eliminated from the charges.⁸⁶ This is because salaries and wages incurred during normal business hours are already

⁸⁵ South Kentucky RECC's First Reply Brief at 3.

⁸⁶ 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); Case No. 2020-00196, *Electronic Application of West Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020); Case No. 2020-00195, *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment*, (Ky. PSC Dec. 30, 2020).

recovered in rates. Thus, recovering the portion of nonrecurring costs that are based on the same labor costs recovered in rates results in a double recovery. For this reason, the Commission reviewed South Kentucky RECC’s nonrecurring cost justification and has adjusted the charges by removing Serviceman and Office Clerical costs from the charges.⁸⁷ For nonrecurring charges that occur after normal business hours, the Office Clerical costs were removed, as the Commission reasonably assumes that these services will be performed during normal business hours. These adjustments result in the following revised nonrecurring charges South Kentucky RECC should charge as well as a pro formal adjustment to other revenue of \$(38,328).⁸⁸

	Current	Revised
Return Check Charge	\$ 17.00	\$ 6.20
Connection/Reconnection	\$ 36.00	\$ 17.55
Connection/Reconnection – after hours	\$ 138.00	\$ 345.00
Collection Fee	\$ 36.00	\$ 17.55
Collection Fee – after hours	\$ 138.00	\$ 345.00
Meter Reading	\$ 36.00	\$ 17.55
Meter Reading – after hours	\$ 138.00	\$ 345.00
Meter Tests	\$ 48.00	\$ 17.55

	Current Charge	Occurances	Test Year Revenue	Revised Charge	Adjustment	Pro Forma
Returned Check Charge	\$ 17.00	1,183	\$ 18,819.00	\$ 6.20	\$ (11,484.40)	\$ 7,334.60
Service Chares	\$ 36.00	1,250	\$ 48,690.00	\$ 17.55	\$ (26,752.50)	\$ 21,937.50
Service Charges - after hours	\$138.00	-	\$ -	\$345.00	\$ -	\$ -
Meter Tests	\$ 48.00	3	\$ 144.00	\$ 17.55	\$ (91.35)	\$ 52.65
			\$ 67,653.00		\$ (38,328.25)	\$ 29,324.75

Prepay Meter Monthly Fee

⁸⁷ South Kentucky RECC’s Response to Staff’s Third Request, Item 15.

⁸⁸ South Kentucky RECC’s Response to Staff’s First Request, Item 52.

South Kentucky RECC also offers a voluntary prepay program. This program was first established in Case No. 2013-00198⁸⁹ and includes a monthly prepay service fee of \$9.00 which was calculated based on the assumption of funding the annual additional investment, specifically the investment in the AMI disconnection meter collar as well as four monthly communication fee charges. South Kentucky RECC provided an updated Prepay Service Fee Charge of \$13 but also noted that the utility did not wish to increase the prepay fee.⁹⁰ When asked about including the monthly fee in the overall cost to provide service, South Kentucky RECC stated that is an option and one that would likely be considered in the future.⁹¹ The monthly prepay fee includes labor charges for Serviceman and Office Clerical costs, and, as explained above, the Commission has found that the inclusion of labor in such charges to be unreasonable. The Commission is also concerned that the underlying assumptions and fees associated with the program were outdated, especially since the original costs were based upon a participation rate of 3.0 percent of member accounts and current participation rate of 5.8 percent of member accounts.⁹² South Kentucky RECC noted at the public hearing that the long range plan includes seeking more frequent rate increases.⁹³ Therefore, the Commission will not alter the current monthly prepay fee at this time, but instructs South Kentucky RECC to

⁸⁹ Case No. 2013-00198, *Application of South Kentucky Rural Electric Cooperative Corporation for Approval of a Prepay Metering Tariff* (Ky. PSC Nov. 15, 2013).

⁹⁰ South Kentucky RECC's Response to Staff's Post Hearing Request, Item 7.

⁹¹ HVT of the May 10, 2022 Hearing at 14:39.

⁹² South Kentucky RECC's Response to Staff's Fourth Request, Item 4.

⁹³ HVT of the May 10, 2022 Hearing at 10:13:04.

evaluate and provide testimony in its next rate case supporting the inclusion or exclusion of the monthly fee.

Pole Attachment Rates

Pole attachment rates are calculated based on the formula prescribed in Administrative Case 251-42.⁹⁴ For South Kentucky RECC, the last time pole attachment rates were adjusted was in Case No. 1992-00520.⁹⁵ South Kentucky RECC provided a revised calculation noting that it believes the current pole attachment rates are being subsidized by other rates.⁹⁶ In previous cases before this Commission, concern that ratepayers may be subsidizing pole attachment rates, especially if there has been a long time period since the rates were updated has been voiced.⁹⁷ Therefore, the Commission finds it reasonable to increase the pole attachment charges as well as make a pro forma adjustment of \$102,678 to other revenues.

<u>Charge</u>	<u>Current</u>	<u>Revised</u>
Pole Charge – 2 Party	\$ 3.63	\$ 5.83
Pole Charge – 3 Party	\$ 2.47	\$ 4.55
Pole Charge – 2 Party with ground	\$ 3.97	\$ 6.05
Pole Charge – 3 Party with ground	\$ 2.68	\$ 4.68
Grounding Charge – 2 Party	\$ 3.44	\$ 6.35
Grounding Charge – 3 Party	\$ 2.27	\$ 4.19

⁹⁴ Administrative Case No. 251, *The Adoption of a Standard methodology for Establishing Rates for CATV Pole Attachments* (Ky. PSC Sept. 17, 1982).

⁹⁵ South Kentucky RECC’s Response to Staff’s Second Request, Item 30. Case No. 92-520, *In the Matter of South Kentucky Rural Electric Cooperative Corporation that on December 21, 1992, It Will Adjust CATV Attachment Rates and Other Nonrecurring Charges* (Ky. PSC Mar. 8, 1993).

⁹⁶ South Kentucky RECC’s Response to Staff’s Second Request, Item 39.

⁹⁷ See, Case No. 2021-00358, *Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment of Rates and Other General Relief* (Ky. PSC May 3, 2022); Case No. 2020-00338, *Electronic Application of Licking Valley Rural Electric Cooperative Corporation for a General Adjustment of Rates Pursuant to Streamlined Procedure Pilot Program Established in Case No. 2018-00407* (Ky. PSC May 10, 2021).

	Current Charge	Occurances	Test Year Revenue	Revised Charge	Adjustment	Pro Forma
Pole Charge - 2 Party	\$ 3.63	4,366	\$ 15,848.58	\$ 5.83	\$ 9,605.20	\$ 25,453.78
Pole Charge - 3 Party	\$ 2.47	36,179	\$ 89,362.13	\$ 4.55	\$ 75,252.32	\$164,614.45
Pole Charge - 2 Party with ground	\$ 3.97	-	\$ -	\$ 6.05	\$ -	\$ -
Pole Charge - 3 Party with ground	\$ 2.68	-	\$ -	\$ 4.68	\$ -	\$ -
Grounding charge - 2 Party	\$ 3.44	5,138	\$ 17,674.72	\$ 6.35	\$ 14,951.58	\$ 32,626.30
Grounding Charge 3-Party	\$ 2.27	1,338	\$ 3,037.26	\$ 4.19	\$ 2,568.96	\$ 5,606.22
			\$125,922.69		\$ 102,378.06	\$228,300.75

Tariff Changes

South Kentucky RECC proposed several changes to sections of the Rules and Regulations and certain rate schedules in South Kentucky RECC's tariffs. Proposed changes in the Rules and Regulations Section include substituting the word "check" with "payment" in Sections 2.70 and 5:50 as well as when referenced in other locations within the tariffs and schedules; altering the requirement as to what criteria may be used in determining a waiver for a required deposit and correcting a reference to the KAR in Section 5.41; altering the month that interest on deposits will be credited and paid in Section 5.42; and altering the relevant payment history criteria for when a refund of a deposit may occur from 12 consecutive payments to 18 and correcting a typographical error in Section 5:43. South Kentucky RECC also proposed an edit to the Prepay Metering Program Tariff and Agreement which allows for disconnection after there has been no consumer energy usage for 90 or more days, and changing the words "Security Lighting" with "Outdoor Lighting." Given that the proposed modifications update the Rules and Regulations and Tariffs and allows for more flexibility, the Commission finds that these proposed modifications are reasonable.

Right-of-Way

South Kentucky RECC noted that like other rural electric cooperatives around Kentucky, right-of-way (ROW) management expenses have significantly increased.⁹⁸ South Kentucky RECC stated that from 2016 to 2020, ROW expense increased by 11.8 percent per mile and, due to this increased cost, the number of miles of line clearing was reduced by 8.0 percent so to stay within budget allowances.⁹⁹ South Kentucky RECC also noted that it has had to renegotiate and rebid some ROW contracts and these contracts are higher than the current rates per circuit-mile. South Kentucky RECC further stated that in order to control costs better, recent ROW bids have been established around a bid structure that is based on the type of circuit and range from \$3,356 to \$9,969 per mile line.¹⁰⁰ During the hearing, Mr. Kenneth Simmons stated that South Kentucky RECC is currently on a seven year ROW rotation, has a goal of six, but prefers a five year rotation. Mr. Simmons also noted that South Kentucky RECC is evaluating changes to existing contracts, that the instant case does not include any ROW costs, and South Kentucky RECC plans to return at a later date to address this issue.¹⁰¹

The Commission has noted the importance of ROW management and how it contributes to reliability and safety of the system.¹⁰² The Commission strongly encourages South Kentucky RECC to evaluate moving back to a five to six year rotation

⁹⁸ Simmons Direct Testimony at 6.

⁹⁹ Simmons Direct Testimony at 6.

¹⁰⁰ Simmons Direct Testimony at 6–7.

¹⁰¹ HVT of the May 10, 2022 Hearing at 10:11:20

¹⁰² See, Case No. 2021-00358, *Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment of Rates and Other General Relief* (Ky. PSC, Apr. 8, 2022), final Order at 11.

for vegetative management, but should temper this with prudence regarding costs, such as working with other electric utilities to develop regional bids for ROW management contracts. Further this prudence should include documentation of the specific details as to what actions should be taken to address the ROW management expenses.

IT IS THEREFORE ORDERED that:

1. The rates proposed by South Kentucky 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 this Order.
3. The depreciation study filed by South Kentucky RECC in the application is approved on and after the date of this Order.
4. South Kentucky RECC will perform a depreciation study within five years from the date of this Order, or with the filing of its next base rate case, whichever occurs earlier.
5. Within 20 days of the entry of this Order, South Kentucky RECC shall file with the Commission, using the Commission's Electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved by this Order and reflecting their effective date and that they were authorized by this Order.
6. The case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION



Chairman

Vice Chairman

Commissioner



ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00407 DATED JUN 30 2022

South Kentucky Rural Electric Cooperative Corporation
Case Number 2021-00407
Summary Revenue Requirement Adjustments
Test Year Ended March 31, 2020
(\$ Millions)

	<u>Adjustment Amount</u>
Amount of Increase Requested by South Kentucky RECC - Original Filing	8.685
Adjustments to South Kentucky RECC's Requested Increase:	
1 Remove Capitalized Portion of South Kentucky RECC's Salaries and Wages Adjustment	(0.081)
2 Adjust Nonrecurring Charges and Pole Attachment Fees	0.064
3 Rate Case Expense Adjusted to Actual - Excluding South Kentucky RECC Labor	0.053
4 Adjust Health Insurance Contributions to National Average	(0.307)
5 Correct Error in TIER Calculation in Application	(1.312)
6 Include Interest Income in Net Margins Used to Determine TIER	(0.566)
7 Include Non-Operating Margins - Interest Income in Net Margins Used to Determine TIER	(0.115)
8 Include Other Capital Credits and Dividends in Net Margins Used to Determine TIER	(0.136)
9 Remove Double Count of LTD Interest Expense Related to the Feb 2020 Issuance	(0.030)
10 Reflect Annualization of LTD Interest Expense Based on Debt Outstanding at March 31, 2020	(0.438)
11 Reflect Admitted Error in the Interest Expense Annualization for New Debt Issues	(0.032)
12 Correct Further South Kentucky RECC's Interest Expense Annualization for New Debt Issues	(0.036)
13 Reflect Decrease in PSC Assessment Fees	(0.006)
Total Adjustments to South Kentucky RECC's Requested Increase	<u>(2.941)</u>
Base Rate Increase for South Kentucky RECC	<u>5.744</u>

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00407 DATED JUN 30 2022

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

SCHEDULE A
RESIDENTIAL, FARM AND NON-FARM

Customer Charge	\$ 17.50
Energy Charge per kWh	\$ 0.08635

SCHEDULE A
RESIDENTIAL, FARM AND NON-FARM ETS

Energy Charge per kWh	\$ 0.06178
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SCHEDULE AES
ALL ELECTRIC SCHOOL SCHEDULE

Customer Charge	\$ 86.07
Energy Charge per kWh	\$ 0.08430

SCHEDULE B
SMALL COMMERCIAL RATE

Customer Charge	\$ 40.00
Energy Charge per kWh	\$ 0.08742

SCHEDULE B
SMALL COMMERCIAL RATE ETS

Energy Charge per kWh	\$ 0.06838
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SCHEDULE DSTL
DECORATIVE STREET LIGHTING

Pole Rate

Metal Halide Lamp or Sodium	
14' Smooth Black Pole	\$ 12.37
14' Fluted Pole	\$ 16.01
1000 Watt Metal Halide - Galleria	
30' Square Steel Pole	\$ 18.34
250 Watt Cobra Head HPS	\$ 25.62
400 Watt Cobra Head Mercury Vapor	
30' Aluminum Pole	\$ 27.95

Unmetered

Cobra Head Light Installed Existing Pole	
15,000-28,000 Lumens	\$ 16.48
LED 10,500 Lumens	\$ 17.12
Cobra Head Light Installed on 30' Aluminum Pole	
7,000-10,000 Lumens	\$ 19.93
15,000-28,000 Lumens	\$ 23.21
Metal Halide Lamp or Sodium	
100 Watt Acorn	\$ 11.00
100 Watt Lexington Lamp	\$ 8.69
LED 173 Watt Area	\$ 26.39
400 Watt Galleria	\$ 22.78
1000 Watt Galleria	\$ 37.91
400 Watt Cobra Head Mercury Vapor	
8' Arm	\$ 19.08
12' Arm	\$ 22.40
16' Arm	\$ 23.45

Metered

Cobra Head Light Installed Existing Pole	
15,000-28,000 Lumens	\$ 10.81
LED 10,500 Lumens	\$ 14.07
Cobra Head Light Installed on 30' Aluminum Pole	
7,000-10,000 Lumens	\$ 17.37
15,000-28,000 Lumens	\$ 17.37
Metal Halide Lamp or Sodium	
100 Watt Acorn	\$ 8.31
100 Watt Lexington Lamp	\$ 6.07
LED 173 Watt Area	\$ 21.75
400 Watt Galleria	\$ 13.08
1000 Watt Galleria	\$ 15.29
400 Watt Cobra Head Mercury Vapor	
8' Arm	\$ 9.48

12' Arm	\$ 12.73
16' Arm	\$ 13.72

SCHEDULE LP
LARGE POWER RATE

Customer Charge	\$ 70.00
Demand Charge per kW	\$ 7.78
Energy Charge per kWh	\$ 0.05804

SCHEDULE LP-1
LARGE POWER RATE 1 (500 KW TO 4,999 KW)

Customer Charge	
Metering Charge	\$ 225.00
Substation Charge	
500-999 kW	\$ 373.20
1,000-2,999 kW	\$ 1,118.42
3,000-7,499 kW	\$ 2,811.45
Demand Charge per kW	\$ 6.54
Energy Charge per kWh	\$ 0.05196

SCHEDULE LP-2
LARGE POWER RATE 2 (5,000 KW TO 9,999 KW)

Customer Charge	
Metering Charge	\$ 160.00
Substation Charge	
3,000-7,499 kW	\$ 2,811.45
7,500-14,799 kW	\$ 3,382.50
Demand Charge per kW	\$ 6.59
Energy Charge per kWh	
First 400 kWh per kW	\$ 0.05196
All remaining kWh	\$ 0.04484

SCHEDULE LP-3
LARGE POWER RATE 1 (500 KW TO 2,999 KW)

Customer Charge	
Metering Charge	\$ 151.21
Substation Charge	
500-999 kW	\$ 381.08
1,000-2,999 kW	\$ 1,142.01
Contract Demand Charge per kW	\$ 7.55
Excess Demand Charge per kW	\$ 9.37
Energy Charge per kWh	\$ 0.04919

SCHEDULE OL
OUTDOOR LIGHTING SERVICE-SECURITY LIGHTS

Unmetered

Mercury Vapor or Sodium 7,000-10,000 Lumens	\$ 11.00
LED 6,300 Lumens	\$ 14.10
Directional Floodlight with bracket	
200 Watt LED – 20,200 Lumens	\$ 24.41
391 Watt LED – 48,000 Lumens	\$ 37.35
250 Watt Sodium	\$ 17.54
250 Watt Metal Halide	\$ 19.03
400 Watt Metal Halide	\$ 23.61
1000 Watt Metal Halide	\$ 41.47

Metered

Mercury Vapor or Sodium 7,000-10,000 Lumens	\$ 7.99
LED 6,300 Lumens	\$ 12.30
Directional Floodlight with bracket	
200 Watt LED – 20,200 Lumens	\$ 18.77
391 Watt LED – 48,000 Lumens	\$ 26.91
250 Watt Sodium	\$ 10.15
250 Watt Metal Halide	\$ 11.29
400 Watt Metal Halide	\$ 11.29
1000 Watt Metal Halide	\$ 12.61

SCHEDULE OPS
OPTIONAL POWER SERVICE

Customer Charge	\$ 51.83
Energy Charge per kWh	\$ 0.10680

SCHEDULE STL
OUTDOOR LIGHTING SERVICE-SECURITY LIGHTS

Mercury Vapor or Sodium 0-20,000 Lumens	\$ 8.90
LED 10,500 Lumens	\$ 17.12
Mercury Vapor or Sodium – over 20,000 Lumens	\$ 14.39

NONRECURRING CHARGES

Return Check Charge	\$ 6.20
Connection/Reconnection	\$ 17.55
Connection/Reconnection – after hours	\$ 345.00
Collection Fee	\$ 17.55
Collection Fee – after hours	\$ 345.00

Meter Reading	\$ 17.55
Meter Reading – after hours	\$ 345.00
Meter Tests	\$ 17.55

POLE ATTACHMENTS

Pole Charge – 2 Party	\$ 5.83
Pole Charge – 3 Party	\$ 4.55
Pole Charge – 2 Party with ground	\$ 6.05
Pole Charge – 3 Party with ground	\$ 4.68
Grounding Charge – 2 Party	\$ 6.35
Grounding Charge – 3 Party	\$ 4.19

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