

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF BIG SANDY)	
RURAL ELECTRIC COOPERATIVE)	CASE NO.
CORPORATION FOR A GENERAL)	2024-00287
ADJUSTMENT OF RATES)	

ORDER

On September 1, 2024, Big Sandy Rural Electric Cooperative Corporation (Big Sandy RECC) pursuant to KRS 278.180, KRS 278.190, and 807 KAR 5:001, filed an application requesting an increase to its rates.

BACKGROUND

Big Sandy RECC is a not-for-profit, member-owned, rural electronic distribution cooperative organized under KRS Chapter 279. Big Sandy RECC is engaged in the business of distributing retail electric power to 12,733 members in Breathitt, Floyd, Johnson, Knott, Lawrence, Magoffin, Martin, and Morgan Counties, Kentucky.¹ Big Sandy RECC does not own any electric generating facilities and is one of the 16-member cooperatives that receive wholesale power from East Kentucky Power Cooperative, Inc. (EKPC).²

¹ Application at unnumbered page 1.

² Case No. 2025-00087, *Electronic Integrated Resource Plan of East Kentucky Power Cooperative, Inc.* (filed April 1, 2025), Application at 1.

In its application, Big Sandy RECC requested an increase in revenues of \$3,457,517, or 13.34 percent, to achieve a TIER of 2.00.³ Big Sandy RECC also requested an increase in the monthly residential charge from \$21.95 to \$29.00.⁴

The Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General), is the only intervenor in this matter.⁵

By Order entered September 18, 2024, the Commission suspended the proposed rates up to and including March 31, 2025, and established a procedural schedule. An informal technical conference (TC) was held on November 7, 2024.⁶ Big Sandy RECC filed direct and rebuttal testimony and responded to multiple rounds of discovery.⁷

A hearing was held on February 18, 2025. On March 5, 2025, Big Sandy RECC and the Attorney General submitted their initial briefs. Neither party submitted a reply brief on March 12, 2025. On April 25, 2025, Big Sandy RECC filed a notice of intent to place rates into effect on or after May 1, 2025.⁸ The Commission issued an Order on May 6, 2025, requiring Big Sandy RECC to maintain its records in such a manner as to allow it, the Commission, or any customer to determine the amounts to be refunded, and

³ Application at unnumbered page 2.

⁴ Application at unnumbered page 3.

⁵ Order (Ky. PSC Oct. 25, 2024).

⁶ Order (Ky. PSC Nov. 20, 2024).

⁷ Big Sandy RECC filed responses to discovery on Oct. 16, 2024, Nov. 15, 2024, Dec. 20, 2024, and Feb. 28, 2025. Big Sandy RECC also filed supplemental responses updating its rate case expense throughout the proceeding.

⁸ Big Sandy RECC's Notice of Intent to Implement Proposed Rates (filed Apr. 25, 2025) at 1.

to whom, in the event a refund is ordered.⁹ This matter now stands submitted to the Commission for a decision.

LEGAL STANDARD

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

KRS 278.010 states, "an affiliate means a person that controls or that is controlled by, or is under common control with, a utility".

TEST PERIOD

Big Sandy RECC used a 12-month historical test period ending December 31, 2023.¹¹ The Attorney General did not contest the use of this period as the test period. The Commission finds that it is reasonable to use the 12-month period ending December 31, 2023, as the test period in this case based on the timing of Big Sandy RECC's application.

REVENUE REQUIREMENT

Revenues and Expense Adjustments

Big Sandy RECC proposed 11 adjustments to normalize its test-year operating revenue and expenses. The Commission finds that six of the proposed adjustments are

⁹ Order (Ky. PSC May 6, 2025) at 2.

¹⁰ KRS 278.300; Pub. Serv. Comm'n v. Com. Ex rel. Conway, 324 S.W.3d 373, 377 (Ky.2010).

¹¹ Application at unnumbered page 3.

reasonable and should be accepted without change. Shown below are the Commission's approved adjustments:

- Fuel Adjustment Clause- \$(193,413)¹²
- Environmental Surcharge - \$(83,979)¹³
- G&T Capital Credits - \$(412,311)¹⁴
- Donations & Promotional Advertising - \$15,038¹⁵
- Professional Services - \$54,567¹⁶
- Life Insurance - \$12,759¹⁷

The Commission modified Big Sandy RECC's other proposed adjustments and made other adjustments as discussed in more detail below.

Depreciation Expense

Big Sandy RECC proposed to increase its depreciation expense by \$376,017 by replacing test-year actual expense with test year-end balances at approved depreciation rates.¹⁸

The Attorney General recommended reducing Big Sandy RECC's proposed \$376,017 increase to Depreciation Expense by \$248,138 to \$127,880.¹⁹ The Attorney

¹² Application, Exhibit 10, JW-2, Reference Schedule: 1.01 at 5.

¹³ Application, Exhibit 10, JW-2, Reference Schedule: 1.02 at 6.

¹⁴ Application, Exhibit 10, JW-2, Reference Schedule: 1.04 at 8.

¹⁵ Application, Exhibit 10, JW-2, Reference Schedule: 1.07 at 11.

¹⁶ Application, Exhibit 10, JW-2, Reference Schedule: 1.08 at 12.

¹⁷ Application, Exhibit 10, JW-2, Reference Schedule: 1.11 at 16.

¹⁸ Application, Exhibit 10, Direct Testimony of John Wolfram (Wolfram Direct Testimony) at 10.

¹⁹ Attorney General's Direct Testimony (filed Jan. 3, 2025), Direct Testimony of Grey Meyer (Meyer Direct Testimony) at 5 and 14.

General argued that Big Sandy RECC's proposed increase of \$376,017 was impacted by an increase in Account 392 - Transportation Depreciation Expense (Account 392).²⁰ The Attorney General stated that the depreciation rate applied to Account 392 was not consistent with the rate contained in the 2008 Commission Order²¹ of 16 percent.²² The Attorney General stated that using a 16 percent depreciation rate decreased the Depreciation Expense by \$74,099 and reduced Big Sandy RECC's revenue requirement by the same amount.²³ Additionally, the Attorney General argued that the depreciation clearing amount was significantly lower than previous years' clearing amounts.²⁴ The Attorney General proposed to calculate a five-year average of the cleared amount.²⁵ The Attorney General stated that a five-year average would reduce depreciation expense by \$70,445, which would reduce Big Sandy RECC's revenue requirement by \$70,445.²⁶ Alternatively, the Attorney General argued that Account 392 over-accrued for 2023 by approximately \$674,000 and that Account 392 had been fully depreciated since 2018.²⁷ Therefore, zero depreciation expense should be included in cost of service for Account 392.²⁸ The Attorney General stated that this would reduce Big Sandy RECC's

²⁰ Meyer Direct Testimony at 14.

²¹ Case No. 2008-00401, *Application of Big Sandy Rural Electric Cooperative Corporation for an Adjustment in Rates* (Ky. PSC Jun. 3, 2009) at 4, and Application (filed Dec. 10, 2008) Schedule 3 at 2. The Commission's final Order generally accepted the depreciation rates.

²² Meyer Direct Testimony at 14

²³ Meyer Direct Testimony at 15.

²⁴ Meyer Direct Testimony at 14.

²⁵ Meyer Direct Testimony at 16.

²⁶ Meyer Direct Testimony at 16.

²⁷ Meyer Direct Testimony at 16-17.

²⁸ Meyer Direct Testimony at 18

depreciation expense by an additional \$103,594.²⁹ All together totaling the Attorney Generals recommendation to reduce Big Sandy RECC's proposed depreciation expense increase of \$376,017 by \$248,138.

In its rebuttal, Big Sandy RECC agreed that the pro forma adjustment for depreciation expense should be revised.³⁰ Big Sandy RECC revised the depreciation rate for Account 392 to 16 percent and adjusted the amounts for fully depreciated items to accurately reflect its books and records.³¹ The revised adjustment to Depreciation Expense was a \$58,093 decrease, or a reduction of \$434,110 from the initial proposed \$376,017 increase.³²

The Commission agrees with Big Sandy RECC's revised adjustment of a \$58,093 reduction to the test year Depreciation Expense. The revised adjustment proposed by Big Sandy RECC accurately reflects depreciation records and uses the approved depreciation rate of 16 percent for Account 392. The Attorney General's proposed adjustment used estimations of fully depreciated line items where Big Sandy RECC used actual depreciation records. As such, the Commission finds Big Sandy RECC revised adjustment more reliable than the proposed estimates, thus accepts the adjustment of Big Sandy RECC as noted.

²⁹ Meyer Direct Testimony at 18.

³⁰ Big Sandy RECC's Rebuttal Testimony (filed Feb. 10, 2025), Rebuttal Testimony of John Wolfram (Wolfram Rebuttal Testimony) at 5.

³¹ Wolfram Rebuttal Testimony at 5.

³² Wolfram Rebuttal Testimony at 5.

Year-End Customers

Big Sandy RECC proposed an \$80,017 decrease to revenues and a \$66,068 decrease to expenses to adjust the test-year expenses and revenues to reflect the number of customers at the end of the test year.³³ This resulted in a proposed net margin reduction of \$13,948.³⁴

The Attorney General opposed rounding the average customer number levels for purposes of calculating the lost revenues.³⁵ The Attorney General argued that the effect on the lost revenues claimed was overstated when rounding the average customer numbers.³⁶ The Attorney General proposed that by removing the rounding in the calculation, Big Sandy RECC's revenue requirement should be reduced by \$6,840.³⁷

In its rebuttal testimony, Big Sandy RECC disagreed with the Attorney General's recommendation and stated that the number of customers on a normalized basis should be a whole number.³⁸ Big Sandy RECC explained that the purpose of the adjustment was to take the number of customers at test-year end and adjust revenues as if that number of customers were in place for a full year.³⁹

In response to the Attorney General's Post-Hearing Data Request, Big Sandy RECC stated that it reversed its position on why rounding the year-end customer

³³ Application, Exhibit 10, Attachment JW-2 at 2.

³⁴ Application, Exhibit 10, Attachment JW-2 at 2.

³⁵ Meyer Direct Testimony at 7.

³⁶ Meyer Direct Testimony at 7.

³⁷ Meyer Direct Testimony at 8.

³⁸ Wolfram Rebuttal Testimony at 3.

³⁹ Wolfram Rebuttal Testimony at 3.

adjustment calculation was appropriate and accepted the adjustment proposed by the Attorney General.⁴⁰ Big Sandy RECC stated that the year-end customer adjustment should not include any rounding and revised the calculation by removing the rounding, which resulted in a reduction to the overall revenue requirement of \$6,841, from \$2,861,406 to \$2,854,565.⁴¹

Additionally, the Attorney General argued that Big Sandy RECC's base revenues for the test year were understated because Big Sandy RECC had a milder winter and summer period in 2023.⁴² The Attorney General argued that if Big Sandy RECC's base revenues were not increased due to milder winter and summer weather in the test year, its rates would be increased, subject to a level of revenues that does not represent normal weather.⁴³ This would result in Big Sandy RECC selling more kWh of electricity the next year it has normal winter and summer weather, but the customers' rates would have been set based on abnormally mild weather.⁴⁴ Therefore, the Attorney General proposed a weather normalization adjustment based on a ten-year temperature average and a five-year kWh average for the test year.⁴⁵ The Attorney General proposed to increase Schedule A-1 revenues, less fuel, by \$349,801, and to decrease Big Sandy RECC's revenue requirement by the same amount.⁴⁶

⁴⁰ Big Sandy RECC's Response to Attorney General's Post-Hearing Request for Information (Post-Hearing Request) (filed Feb. 28, 2025), Item 2.

⁴¹ Big Sandy RECC's Response to Attorney General's Post-Hearing Request, Item 2.

⁴² Meyer Direct Testimony at 12.

⁴³ Meyer Direct Testimony at 12.

⁴⁴ Meyer Direct Testimony at 12.

⁴⁵ Meyer Direct Testimony at 13.

⁴⁶ Meyer Direct Testimony at 13.

In rebuttal testimony, Big Sandy RECC disagreed with the Attorney General's weather adjustments.⁴⁷ Big Sandy RECC stated that it was not appropriate to adjust usage from test year actuals to a five-year historical average without also adjusting other parameters in the test year to a five-year historical average.⁴⁸ Big Sandy RECC also stated there is no evidence to support the specific use of a five-year average usage per customer as the appropriate method to correlate weather and usage.⁴⁹ Instead, Big Sandy RECC stated that the appropriate way to adjust for this would be to calculate and apply a Weather Normalization Adjustment (WNA) analysis; however, the Attorney General did not perform one.⁵⁰ Big Sandy RECC further argued that the Commission has not required or addressed the WNA in any recent electrical distribution rate cases, and the Commission should not accept the Attorney General's proposed adjustment.⁵¹

The Commission disagrees with Big Sandy RECC and the Attorney General's position that rounding the year-end customer adjustment calculation is inappropriate. The Commission has historically used a rounded year-end customer in this adjustment calculation.⁵² As previously stated in Big Sandy RECC's rebuttal testimony, the purpose of the adjustment is to take the number of customers at test year end and adjust revenues as if that number of customers were in place for a full year. For this reason, it is not

⁴⁷ Wolfram Rebuttal Testimony at 4.

⁴⁸ Wolfram Rebuttal Testimony at 4.

⁴⁹ Wolfram Rebuttal Testimony at 4.

⁵⁰ Wolfram Rebuttal Testimony at 4.

⁵¹ Wolfram Rebuttal Testimony at 5.

⁵² Case No. 2024-00085, Electric Application of Jackson Purchase Energy Corporation for a General Adjustment of Rates and Other General Relief (Ky. PSC Feb. 28, 2025) at 33.

practical to assume any number of customers that is not a whole number. The Commission further disagrees with the Attorney General's argument for the weather normalization adjustment. The Attorney General did not perform a complete WNA analysis or rely on a 20–30-year period of Heating Degree Days and Cooling Degree Days.

The Commission agrees with Big Sandy RECC's original proposed net margin reduction of \$13,948, because it accurately reflects the change in expenses and revenues based on the number of customers at the end of the test year.

Rate Case Expense

Big Sandy RECC proposed to increase its test-year Rate Case Expense by \$25,333⁵³ based on a three-year amortization of estimated Rate Case Expense of \$76,000.⁵⁴ Big Sandy RECC was directed to file monthly updates to its Rate Case Expenses with invoices,⁵⁵ with the last update filed on April 25, 2025, for expenses through April 3, 2025.⁵⁶ Based on the table below and invoices that were filed in the case record, Big Sandy RECC's Rate Case Expense as of April 3, 2025, is \$99,075.

⁵³ Wolfram Direct Testimony, Exhibit 10, Attachment JW-2, Reference Schedule 1.06.

⁵⁴ Wolfram Direct Testimony, Exhibit 10, Attachment JW-2, Reference Schedule 1.06.

⁵⁵ Staff's First Request, Item 36.

⁵⁶ Rate Case Expense Invoices (filed Apr. 25, 2025).

Rate Case Expenses

Line #	Item (1)	Expense (2)
1	Legal - Honaker Law Office	\$ 70,967
2	Consulting - Catalyst Consulting LLC	22,107
3	Advertising	5,000
4	Supplies / Misc	1,000
5	Subtotal	99,075
6		
7	Total Amount	99,075
8	Amortization Period (Years)	3
9	Annual Amortization Amount	33,025
10		
11	Test Year Amount	-
12		
13	Pro Forma Year Amount	33,025
14		
15	Adjustment	\$ 33,025

The Commission finds that based on the summaries last provided to the Commission, and throughout the pendency of this case, the appropriate Rate Case Expenses are \$99,075. The Commission also finds that the appropriate amortization period is three years. The Commission has historically approved three-year amortization periods for rate case expense.⁵⁷ This results in an increase of \$33,025 to Rate Case Expense.

Directors' Expenses

Big Sandy RECC proposed removing \$12,309 related to certain Directors' Expenses, including costs for directors attending EKPC / KAEC / NRECA annual meeting(s), training, or tours when the director was not the Big Sandy RECC

⁵⁷ See i.e. Case No. 2024-00085, *Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment of Rates and Other General Relief*, Final Order (filed Feb. 28, 2025), at 18. Case No. 202-00147, *Electronic Application of South Kentucky Rural Electric Cooperative Corporation for a General Adjustment of Rates, Approval of Depreciation Study, and Other General Relief*, Final Order (filed Jun. 30, 2022), at 8.

representative for the respective organization.⁵⁸ In its response to Commission Staff's Second Request for Information, Big Sandy RECC made a correction and increased the removal of Directors' Expenses by \$10,394 for a corrected adjustment of a reduction of \$22,703.⁵⁹ The Attorney General agreed with this adjustment.⁶⁰

The Commission agrees with the correction made by Big Sandy RECC and finds that the revenue requirement should be reduced by \$22,703 to accurately reflect the removal of Director Expenses.

Wages and Salaries

Big Sandy RECC proposed an increase to test-year Wages and Salaries expense of \$170,101.⁶¹ Big Sandy RECC stated that the pro forma adjustment to normalized Wages and Salaries to account for changes due to wage increases, departures, or new hires for a standard average of work 2,080 hours per year.⁶² Big Sandy RECC used \$170,101 as its Wages and Salary adjustment in its application and did not apply the capitalization rate of labor expense of 32.6 percent. In response to Staff's Second Request, Big Sandy RECC provided an attachment of the Wages and Salaries adjustment calculation unchanged from its application.⁶³ In response to Staff's Third Request, Big Sandy RECC filed another revised Wages and Salaries adjustment

⁵⁸ Application, Exhibit 10, Attachment JW-2 at 13.

⁵⁹ Big Sandy RECC's Response to Staff's Second Request, Item 7.

⁶⁰ Meyer Direct Testimony at 5-6.

⁶¹ Wolfram Direct Testimony at 12 and Application, Exhibit 10, Attachment JW-2 at 15.

⁶² Wolfram Direct Testimony, Exhibit 10 at 11.

⁶³ Big Sandy RECC's Response to Staff's Second Request, Item 8.

attachment.⁶⁴ Big Sandy RECC explained that all time over 2,080 hours should have been paid as regular hours due to coding hours with the exception of one hour.⁶⁵ Big Sandy RECC stated that one hour was coded as vacation time but was not deducted from regular hours due to an error.⁶⁶ Big Sandy RECC proposed a revised increase to test-year Wages and Salaries expense of \$17,529, which resulted in a reduction of \$152,572 from the \$170,101 increase proposed in the application.⁶⁷

The Attorney General argued that Big Sandy RECC had mistakenly increased the revenue requirement by the total increase to cost, which included costs that will be booked to capital accounts, rather than just an increase to Operations and Maintenance (O&M) expense.⁶⁸ The Attorney General stated that Big Sandy RECC's updated Wages and Salaries worksheet corrected the regular time Wages and Salaries for the part-time and summer employees, so the wages were not calculated on the standard annual full-time hours worked of 2,080 hours per employee, but were instead kept at part-time hours.⁶⁹ The Attorney General stated that this correction reduced the overall Wages and Salaries cost by \$108,848, and the expense portion of Wages and Salaries was reduced by \$73,409.⁷⁰

⁶⁴ Big Sandy RECC's Response to Staff's Third Request, Item 3.

⁶⁵ Big Sandy RECC's Response to Staff's Third Request, Item 3.

⁶⁶ Big Sandy RECC's Response to Staff's Third Request, Item 3.

⁶⁷ Big Sandy RECC's Response to Staff's Third Request, Item 3.

⁶⁸ Meyer Direct Testimony at 6.

⁶⁹ Meyer Direct Testimony at 6.

⁷⁰ Meyer Direct Testimony at 7.

In rebuttal, Big Sandy RECC agreed with the revision and provided a revised attachment showing a pro forma adjustment to Wages and Salaries that resulted in an increase of \$17,529, which resulted in a reduction of \$152,572 from the \$170,101 increase proposed in the application.⁷¹

The Commission agrees with Big Sandy RECC's revised adjustment of a \$17,529 reduction to the test year Wages and Salaries expense, or a \$152,572 reduction from its initial requested increase of \$170,101. The revised adjustment accurately reflects Big Sandy RECC's new wage rates and capitalization rate of labor.

Overtime Wages

Big Sandy RECC's proposed pro forma overtime costs were \$356,725.⁷² The Attorney General stated that Big Sandy RECC multiplied the number of Overtime Hours worked by each employee during the test year by the adjusted pro forma wage rates multiplied by 1.5 to calculate the overtime dollars paid during the test year.⁷³ The Attorney General further stated that Big Sandy RECC assumed no change to Overtime Hours worked and that overtime wages would grow in proportion to the average regular time wage.⁷⁴ As a result, Big Sandy RECC calculated that the total overtime costs were \$356,613, which was a difference of \$112 from the overtime cost actually recorded in 2023.⁷⁵

⁷¹ Wolfram Rebuttal Testimony at 3 and Rebuttal Exhibit JW-2.

⁷² Application, Exhibit 10, Attachment JW-2, Reference Schedule 1.10.

⁷³ Meyer Direct Testimony at 18.

⁷⁴ Meyer Direct Testimony at 18.

⁷⁵ Meyer Direct Testimony at 18.

The Attorney General disagreed that Big Sandy RECC's calculation resulted in a reasonable cost for Overtime Hours worked.⁷⁶ The Attorney General argued that a multi-year average period would capture the mix of the factors for normalizing overtime.⁷⁷ The Attorney General proposed that overtime costs be set at the five-year average of \$294,923 before applying the labor capitalization rate.⁷⁸ This would reduce the pro forma overtime wages by \$61,690.⁷⁹ The Attorney General proposed removing \$41,605 from the proposed revenue requirement, which is \$61,690 multiplied by the labor capitalization rate of 67.44 percent.⁸⁰

In rebuttal, Big Sandy RECC stated there was no evidence that the test-year overtime cost was unreasonable.⁸¹ Big Sandy RECC argued that it was not appropriate to reduce Overtime Hours to a five-year average without considering doing the same for other parameters in the case.⁸² Big Sandy RECC argued that the Commission should rely on the test-period overtime costs, and hours as a basis for setting the revenue requirement.⁸³

The Commission finds that Big Sandy RECC's proposed pro forma overtime costs of \$356,725 should be denied. The Commission further finds that the Attorney General's

⁷⁶ Meyer Direct Testimony at 19.

⁷⁷ Meyer Direct Testimony at 20.

⁷⁸ Meyer Direct Testimony at 20.

⁷⁹ Meyer Direct Testimony at 20.

⁸⁰ Meyer Direct Testimony at 20.

⁸¹ Wolfram Rebuttal Testimony at 6.

⁸² Wolfram Rebuttal Testimony at 6.

⁸³ Wolfram Rebuttal Testimony at 6.

proposed adjustment is reasonable and that a five-year average of overtime wages should be approved. The Commission notes that Big Sandy RECC's historic overtime wage expense indicates fluctuations year to year in a manner that does not generally indicate a trend toward a systematic increase, but rather, supports normalizing the expense.

Further, the Commission accepted Big Sandy RECC's requested adjustment to set ordinary Wages and Salaries based on the assumption that Big Sandy RECC would be fully staffed with 43 employees, which was not the case in the test year. The Commission finds that the same assumption that Big Sandy RECC will be fully staffed should result in a reduction in overtime expenses as argued by the Attorney General. The Commission finds that the Attorney General's proposed pro forma test-year overtime expense is reasonable, and if anything, may be overstated because it also includes periods in which Big Sandy RECC was not fully staffed. Thus, the Commission finds that the Attorney General's proposed adjustment to overtime expense should be accepted, and that overtime expense should be reduced by \$61,690 to \$294,923. After determining the total adjustment amount, the Attorney General adjusted the total expense amount for capitalization by reducing it by 32.6 percent, which resulted in a total test year adjustment of \$41,605.

Right-of-Way

Big Sandy RECC proposed a \$698,996 increase to Right-of-Way (ROW) expense.⁸⁴ The proposed increase resulted in a pro forma cost of ROW expense of

⁸⁴ Application, Exhibit 10, Attachment JW-2, Reference Schedule 1.12.

\$2,055,210.⁸⁵ Big Sandy RECC stated that the pro forma ROW cost was calculated by summing the four major components of its vegetation management program, based on the minimum clearing cycle of seven years recommended by the ECI vegetation management consultant.⁸⁶ Big Sandy RECC stated that it needed to clear 138 miles per year to maintain a seven-year cycle, with an annual cost of \$1,524,210.⁸⁷ Big Sandy RECC also proposed a four-year cycle for herbicide application at an annual cost of \$121,000, mid-cycle work at an annual cost of \$300,000, helicopter side trimming at an annual cost of \$100,000, and tree growth regulators at an annual cost of \$10,000.⁸⁸

The Attorney General argued that there was no reasonable basis to believe that Big Sandy RECC was capable of meeting its target of providing ROW coverage for 138 miles per year.⁸⁹ The Attorney General stated that Big Sandy RECC previously only budgeted for an annual dollar amount with no definitive target number of miles to trim; instead, it budgeted a dollar amount and utilized hourly work to maintain as much as possible with the budget amount.⁹⁰ The Attorney General stated that, even in years where Big Sandy RECC achieved a TIER level greater than 2.00, it could not meet the goal of 138 miles per year.⁹¹ The Attorney General argued that, without budgets designed with

⁸⁵ Big Sandy RECC's Response to Staff's Second Request, Item 11.

⁸⁶ Big Sandy RECC's Response to Staff's Second Request, Item 11.

⁸⁷ Big Sandy RECC's Response to Staff's Second Request, Item 11.

⁸⁸ Big Sandy RECC's Response to Staff's Second Request, Item 11.

⁸⁹ Meyer Direct Testimony at 26.

⁹⁰ Meyer Direct Testimony at 26.

⁹¹ Meyer Direct Testimony at 26.

a specific tree trimming mileage, it would be difficult for to achieve a goal of 138 miles trimmed per year.⁹²

The Attorney General proposed that the ROW be set with the maximum actual trimmed and treated miles recorded over the past 10 years and then increase the maximum by 10 percent, resulting, in this matter, in a total of 105.93 miles of trimming per year.⁹³ The Attorney General stated that this would bring the total cost of ROW trimming and treatment to \$1,169,997, using the current cost of trimming of \$11,045 per mile.⁹⁴ The Attorney General further proposed to add the most recent cost of herbicide treatment (\$118,026), spot maintenance (\$214,770), and helicopter trimming (\$90,245), for a total of \$1,593,038.⁹⁵ This represented a reduction of \$462,172 to Big Sandy RECC's proposed expense of \$2,055,210.⁹⁶ The Attorney General further proposed that, if the Commission granted Big Sandy RECC its proposed ROW expense, Big Sandy RECC should be required to file an annual reconciliation report with the Commission, detailing the amount of miles trimmed and showing why additional miles could not be trimmed.⁹⁷ Additionally, the Attorney General stated that the reconciliation should identify the amount of the funds that exist from the extra cushion above the required minimum TIER coverages, and whether Big Sandy RECC spent any of the funds or the ROW funds for items not included in the cost of service or approved by the Commission for ratemaking

⁹² Meyer Direct Testimony at 28.

⁹³ Meyer Direct Testimony at 28.

⁹⁴ Meyer Direct Testimony at 28.

⁹⁵ Meyer Direct Testimony at 28.

⁹⁶ Meyer Direct Testimony at 28.

⁹⁷ Meyer Direct Testimony at 29.

purposes.⁹⁸ The Attorney General argued that the reconciliation report would provide valuable information to the Commission and the rate case parties, including Big Sandy RECC's members, as to why ROW maintenance trim targets have not been achieved.⁹⁹

In rebuttal, Big Sandy RECC stated that the Attorney General's proposed recommendation to use historical ROW maintenance costs for setting rates would ensure that Big Sandy RECC would never catch up to the target trimming cycle.¹⁰⁰ Big Sandy RECC stated that the historical ROW maintenance costs largely align with the historical achieved TIER values.¹⁰¹ Big Sandy RECC further stated that, in recent years, it has had insufficient margins to permit it to manage the ROW to the target cycle.¹⁰² Big Sandy RECC argued that setting rates based on a history in which it fell short of the ROW maintenance target will ensure that, in the future, it will continue to fall short of the ROW maintenance target.¹⁰³

Having considered the record and being otherwise sufficiently advised, the Commission finds Big Sandy RECC's proposed ROW expense of \$2,055,210 is reasonable. However, as discussed below, the Commission has concerns regarding Big Sandy REC's failure to meet its target ROW maintenance.

The Commission finds that Big Sandy RECC's goal of performing ROW maintenance on a seven-year cycle is both reasonable and necessary for reliability on its

⁹⁸ Meyer Direct Testimony at 29.

⁹⁹ Meyer Direct Testimony at 29.

¹⁰⁰ Wolfram Rebuttal Testimony at 10.

¹⁰¹ Wolfram Rebuttal Testimony at 10.

¹⁰² Wolfram Rebuttal Testimony at 10.

¹⁰³ Wolfram Rebuttal Testimony at 10.

system. However, as noted by Attorney General Witness Meyer, the facts are undisputed that Big Sandy RECC has not actually performed, or even budgeted to perform, ROW maintenance based on a seven-year cycle in the past six years¹⁰⁴ in which Big Sandy RECC has records. This raises serious questions about the reasonableness of setting rates based on the assumption that Big Sandy RECC will incur expenses to maintain its ROW based on a seven-year cycle.

While the Commission understands that other expenses may increase following a rate case and revenue may fluctuate, Big Sandy RECC continues to pay costs excluded from rate recovery instead of covering ROW expense as noted in the Attorney General's brief.¹⁰⁵ Further, the Commission does not find it reasonable to include ROW expense in the revenue requirement to provide a margin to cover revenue shortfalls, increases in expenses elsewhere, or expenses that are excluded for ratemaking purposes. The Commission notes that there are other costs included in rates, including the TIER discussed below, which the Commission is not reducing as proposed by the Attorney General, that provide Big Sandy RECC with appropriate margins, and if those margins become insufficient, Big Sandy RECC can request a rate increase. However, the Commission recognizes that, if Big Sandy RECC is not authorized to recover ROW expense based on a seven-year cycle, it would be unable to perform maintenance on that cycle. Thus, the Commission finds that Big Sandy RECC's ROW expense should be set based on a seven-year cycle to ensure that it has the funds to complete ROW maintenance on a seven-year cycle. The Commission is concerned that Big Sandy

¹⁰⁴ Meyer Direct Testimony at 26.

¹⁰⁵ Attorney General Post-Hearing Brief at 9.

RECC has failed to give ROW maintenance the necessary level of attention, or even come close in most years to completing its seven-year cycle. If Big Sandy RECC continues to fail to meet its target goal of 138 miles per year, the Commission may, in a future case, require additional reporting requirements, such as the tracking of ROW expenses.

Health Care Costs.

Big Sandy RECC did not propose an adjustment to health care premiums. Big Sandy RECC provided a Benefit Plan Assessment from 2024 that was completed by Brown & Brown Insurance.¹⁰⁶ This Assessment concluded that Big Sandy RECC's current Health Benefits are at the average amount related to comparable companies and is market competitive, but not market leading.¹⁰⁷

The Attorney General stated that Big Sandy RECC has a policy of covering 89.88 percent of employee healthcare costs for both single and family coverage. The Attorney General argued that healthcare costs should be adjusted to the Bureau of Labor and Statistics (BLS) average, since non-union employees pay less than 12 percent of the health insurance premiums.¹⁰⁸ As a result, the Attorney General proposed that Big Sandy RECC's revenue requirement be reduced by at least \$78,488, to an expense of \$635,530.¹⁰⁹

¹⁰⁶ Big Sandy RECC's Response to Attorney General's First Request for Information (Attorney General's First Request) (filed Nov. 15, 2024), Item 27b, Attachment.

¹⁰⁷ Big Sandy RECC's Response to Attorney General's First Request, Item 27b, Attachment at 10.

¹⁰⁸ Meyer Direct Testimony at 22

¹⁰⁹ Meyer Direct Testimony at 21–22.

Big Sandy RECC disagreed with the Attorney General's proposed adjustment.¹¹⁰ Big Sandy RECC stated that the Attorney General's proposed adjustment was based on a streamlined rate proceeding and the provisions of streamlined rate filings do not apply in this case.¹¹¹

The Commission finds that the Attorney General's proposed adjustment to Big Sandy RECC's Health Care expenses for the test year should be rejected. The Commission reviews the reasonableness of benefit expenses on a case-by-case basis. In Case No. 2019-00053 the Commission ruled that employee benefits are unreasonable if they exceed benefits that are market competitive, and in general rate cases 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 compared those benefits to market competitive benefits and, where appropriate, reduced test-year expenses for health insurance premiums to levels based on national average employee contribution rates.¹¹² Big Sandy RECC provided a Benefits Plan Assessment that stated that Big Sandy RECC's current Health Benefits are at the average amount in comparison to comparable companies and is market competitive.

Retirement Benefits.

Big Sandy RECC did not propose any adjustments related to Retirement Benefits.

The Attorney General proposed to remove the expense associated with the least expensive retirement plan from Big Sandy RECC's proposed revenue requirement for

¹¹⁰ Wolfram Rebuttal Testimony at 7.

¹¹¹ Wolfram Rebuttal Testimony at 7.

¹¹² Case No. 2019-00053, Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment in Existing Rates (Ky. PSC June 20, 2019), Order at 8.

employees who participate in both retirement plans.¹¹³ The Attorney General recommended requiring Big Sandy RECC to provide information as to whether there are employees who participate in both the defined benefit and a defined contribution plan, along with the amount that Big Sandy RECC pays for each of the plans related to those specific employees.¹¹⁴

In rebuttal testimony, Big Sandy RECC stated that it did not have any employees for whom it contributed to more than one retirement plan.¹¹⁵

The Commission finds that the Attorney General's proposed adjustment to Big Sandy RECC's test year Retirement Benefits expense should be rejected. While the Commission generally agrees that for employees who participate in both retirement plans that this amount should not be included; however, Big Sandy RECC does not have any employees for which it contributes to more than one retirement plan.

Times Earned Ratio (TIER) Calculation.

Big Sandy RECC requested a 2.00 TIER in its application.¹¹⁶

The Attorney General argued that a TIER of 1.85 is sufficient to ensure that the Big Sandy RECC has more than necessary funds to meet its debt obligations with an adequate cushion should the cost of debt increase, while saving Big Sandy RECC's member-owners \$134,706 in revenue requirement.¹¹⁷ The Attorney General acknowledged that the Commission has historically allowed a TIER ratio of 2.0; however,

¹¹³ Meyer Direct Testimony at 31.

¹¹⁴ Meyer Direct Testimony at 30.

¹¹⁵ Wolfram Rebuttal Testimony at 11.

¹¹⁶ Application at unnumbered page 2.

¹¹⁷ Meyer Direct Testimony at 25.

the Attorney General stated that Case No. 2021-00407¹¹⁸ allows the TIER to be determined on a case by case basis.¹¹⁹

In Big Sandy RECC's post hearing brief, it argued that a 1.85 TIER is unreasonable because it does not account for financial contingencies or other financial matters.¹²⁰ Big Sandy RECC stated that if the Commission authorized a TIER lower than 2.0, it would have less case working capital which would impair its ability to respond to any unforeseen expenses.¹²¹ Big Sandy RECC argued that decreasing the TIER would put it in jeopardy of not meeting its debt covenant requirements and that Big Sandy RECC's use of a 2.0 TIER calculation is reasonable and is supported by precedent.¹²²

In its post hearing brief, the Attorney General argued that Big Sandy RECC failed to meet its burden of proof to establish that a 2.0 TIER would lead to fair, just and reasonable rates.¹²³ The Attorney General stated that Big Sandy RECC provided no analytical support for its proposed 2.0 TIER and it failed to discuss the June 30, 2022 Order in Case No. 2021-00407 where the Commission stated that authorized TIER for an electric distribution cooperative would be addressed on a case by case basis.¹²⁴

¹¹⁸ Case No. 2024-00407, *Electronic Application of South Kentucky Rural Electric Cooperative Corporation for a General Adjustment of Rates, Approval of Depreciation Study, and Other General Relief* (Ky. PSC Jun.30, 2022) at 16.

¹¹⁹ Meyer Direct Testimony at 25 citing Case No. 2021-00407, *Electronic Application of South Kentucky Rural Electric Cooperative Corporation for a General Adjustment of Rates, Approval of Depreciation Study, and Other General Relief* (Ky. PSC, June 30, 2022), Order at page 18.

¹²⁰ Big Sandy RECC's Post-Hearing Brief at 11.

¹²¹ Big Sandy RECC's Post-Hearing Brief at 11.

¹²² Big Sandy RECC's Post-Hearing Brief at 11.

¹²³ Attorney General's Post-Hearing Brief at 18.

¹²⁴ Case No. 2021-00407, *Electronic Application of South Kentucky Rural Electric Cooperative Corporation for a General Adjustment of Rates, Approval of Depreciation Study, and Other General Relief* (Ky. PSC, June 30, 2022), Order at page 18.

Additionally, the Attorney General argued that 2.0 TIER was excessive due to Big Sandy RECC having riders that collect significant portions of its costs, which guarantees it would be made whole for its fuel costs and environmental surcharges.¹²⁵ The Attorney General also stated that the authorization of an excessive TIER would be a disincentive to controlling discretionary expenses.¹²⁶ The Attorney General stated that, in theory, if the Commission authorized a higher TIER that provides excessive margins, it could be returned to customers through future capital credits, however, the Attorney General argued that this is problematic because there would be no tracking and no functional equivalence between excessive margins and future capital credits.¹²⁷ The Attorney General further stated that any return of excess margins would be unlikely diluted and delayed because customers stand at the end of the line for any residual revenues.¹²⁸ Lastly, the Attorney General argued that the authorization of a higher TIER than what is required by loan covenants, increases the revenue requirement, and in turn, the rate increase on customers.¹²⁹

The Commission finds that, while TIER is determined on a case-by-case basis, a 2.0 TIER is more appropriate here and consistent with Commission precedent.¹³⁰ If the

¹²⁵ Attorney General Post-Hearing Brief at 19.

¹²⁶ Attorney General Post-Hearing Brief at 19.

¹²⁷ Attorney General Post-Hearing Brief at 20.

¹²⁸ Attorney General Post-Hearing Brief at 20.

¹²⁹ Attorney General Post-Hearing Brief at 20.

¹³⁰ Case No. 2023-00158, *Electronic Application of Farmers Rural Electric Cooperative Corporation for a General Adjustment of Rates Pursuant to Streamlined Procedure Pilot Program Established in Case No. 2018-00407* (Ky. PSC Oct. 3, 2023); and Case No. 2023-00213, *Electronic Application of Shelby Energy Cooperative, Inc. for a General Adjustment of Rates Pursuant to Streamlined Procedure Pilot Program Established in Case No. 2018-00407* (Ky. PSC Oct. 17, 2023).

Commission were to authorize a TIER lower than 2.0, considering Big Sandy RECC's balance sheet, Big Sandy RECC would have a lower margin and would be more likely to have insufficient cash flow to cover expenses in the event of fluctuations in revenue caused by unpredictable weather and unexpected changes in expenses. The Commission is concerned that this could prevent Big Sandy RECC from meeting its debt service obligation requirements, which could negatively affect its ability to obtain debt and could require Big Sandy RECC to file more frequent rate cases at customers' expense.

Based on the evidence in the case record, the Commission finds that a TIER of 2.0 should be authorized in this case, because if a lower TIER were authorized, Big Sandy RECC's cash flow and operating margin would be reduced below a reasonable level. Thus, the Commission finds that the Attorney General's proposed adjustment reducing the TIER to 1.85 should be rejected.

Revenue Requirement Summary.

The Commission authorizes a rate increase of \$2,827,493, which represents a 11.01 percent increase. The pro forma adjustments and revenue requirement calculation are found in Appendix A. The effects of the adjustments on Big Sandy RECC's net income results in utility operating margins of \$335,701 based upon total operating revenues of \$24,457,025, a total cost of electric service of \$24,121,323, and resulting net margins of \$898,037. The resulting credit metrics are a 2.0 TIER, a 1.43 OTIER, and a debt service coverage ratio of 2.15, all of which will give Big Sandy RECC a reasonable margin to achieve its debt covenants.

RATE DESIGN

Cost of Service Study (COSS)

Big Sandy RECC filed a fully allocated COSS based upon the 12 Coincident Peak (12 CP) methodology, to mirror the basis of cost allocation used in the applicable EKPC wholesale tariff, to determine the cost to serve each customer class.¹³¹ With the 12 CP methodology, Big Sandy RECC explained that demand related costs are allocated on the basis of the demand for each rate class at the time of EKPC's system peak CP for each of the twelve months and customer related costs are allocated on the basis of the average number of customers served in each rate class during the test year.¹³²

The zero-intercept method was used for the distribution components to determine the customer components of overhead conductor, underground conductor, and line transformers.¹³³ The COSS determined Big Sandy RECC's overall rate of return (ROR) on rate base and used to determine the relative rates of return that Big Sandy RECC is earning from each rate class.¹³⁴ The proposed Revenue Allocation for each rate class with the ROR is illustrated below:

Rate Class	Revenue Increase	Return on Rate Base	Unitized Return on Rate Base
A-1 Farm & Home	\$2,998,043	3.93%	0.98
A2- Commercial & Small Power	\$0	5.68%	1.41
LP- Large Power	\$240,666	3.98%	0.99
LPR- Large Power	\$26,055	3.99%	0.99
IND 1-B- Industrial	\$46,716	3.98%	0.99
YL-1- Lighting	\$146,038	4.00%	1.00

¹³¹ Wolfram Direct Testimony at 16.

¹³² Wolfram Direct Testimony at 17.

¹³³ Wolfram Direct Testimony at 15.

¹³⁴ Wolfram Direct Testimony at 13.

TOTAL	\$3,457,517	4.02%	1.00
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In response to the Attorney General's second request, Big Sandy RECC filed an updated COSS reflecting adjustments made to its proposed revenue requirement.¹³⁵ The adjustments to the revenue allocation were only made to the A-1 Farm & Home rate class. Illustrated below are the adjustments made to Big Sandy RECC's Revenue Allocation and ROR:¹³⁶

Rate Class	Revenue Increase	Return on Rate Base	Unitized Return on Rate Base
A-1 Farm & Home	\$2,932,326	3.98%	0.97
A2- Commercial & Small Power	\$0	5.90%	1.47
LP- Large Power	\$240,666	4.13%	1.03
LPR- Large Power	\$26,055	4.12%	1.02
IND 1-B- Industrial	\$46,716	4.12%	1.02
YL-1- Lighting	\$146,038	4.10%	1.02
TOTAL	\$3,391,800	4.02%	1.00

Finally, in rebuttal testimony, Big Sandy RECC filed a finalized version of its COSS.¹³⁷ The adjustments change the cost-based rates by small increments and do not change the relative assessment of overall rates of return for Big Sandy RECC's rate classes. Additionally, the revenue allocated to each rate class decreased significantly from the proposed revenue allocation.¹³⁸

¹³⁵ Big Sandy RECC's Response to Attorney General's Second Request for Information (Attorney General's Second Request) (filed Dec. 20, 2024), Item 26.

¹³⁶ Big Sandy RECC's Response to Attorney General's Second Request, Item 26. Big_Sandy_2023_COS-Updated-AG2-26.xlsx, Summary of Returns tab, and Big_Sandy_2023_PresPropRates-Updated-AG2-26.xlsx, Summary tab. Note that the total revenue increase may not correspond with the sum of the individual rate class revenue increases due to rounding.

¹³⁷ Wolfram Rebuttal Testimony at 11–13.

¹³⁸ Wolfram Rebuttal Testimony, Exhibits JW-3 and JW-9.

Rate Class	Revenue Increase	Return on Rate Base	Unitized Return on Rate Base
A-1 Farm & Home	\$2,513,737	3.90%	0.96
A2- Commercial & Small Power	\$0	7.49%	1.84
LP- Large Power	\$204,679	3.90%	0.96
LPR- Large Power	\$10,611	3.90%	0.96
IND 1-B- Industrial	\$42,039	4.03%	0.99
YL1- Lighting	\$90,306	3.90%	0.96
TOTAL	\$2,861,372	4.06%	1.00

Having reviewed Big Sandy RECC's revised COSS, the Commission accepts Big Sandy RECC's proposal to use the 12 CP method as a guide to determine revenue allocation. However, the Commission made additional adjustments that require additional changes to the rates as discussed in more detail below.

Revenue Allocation and Rate Design

Based on the results of the COSS, Big Sandy RECC proposed to allocate the revenue increase in a greater proportion to the rate classes whose returns are more negative.¹³⁹ Therefore, the rate increases would be apportioned in accordance with¹⁴⁰ Big Sandy RECC proposed rate increases for all rate classes, except A2- Commercial & Small Power.

Big Sandy RECC filed three revised revenue allocations. In response to the Attorney General's Second Request, the first revenue allocation resulted in a revised allocation for solely the A-1 Farm & Home rate class. The adjustments to rate design were reflected in the energy charge, which changed from \$0.11476 per kWh to \$0.11430

¹³⁹ Wolfram Direct Testimony at 20.

¹⁴⁰ Wolfram Direct Testimony at 20.

per kWh.¹⁴¹ The second revised revenue allocation, filed alongside Big Sandy RECC's rebuttal testimony, revised the allocation for all rate classes with proposed rate increases.¹⁴² The final revised revenue allocation, filed in response to the Attorney General's Post-Hearing Request, revised the A-1 Farm & Home rate class allocation. The adjustments to rate design were reflected in the energy charge, which changed from \$0.11137 per kWh to \$0.11132 per kWh.¹⁴³

The Attorney General argued in its post-hearing brief that, if the Commission were to grant the proposed residential customer charge, it would result in a 32.12 percent increase, be the highest residential monthly customer charge in the Commonwealth of Kentucky,¹⁴⁴ and violate the principle of gradualism in ratemaking.¹⁴⁵ Additionally, the Attorney General argued that the proposed increases to the residential monthly customer charge and energy charge would hinder residential customers' ability to control their monthly electric bills and pose a financial hardship on those customers already struggling to make ends meet.¹⁴⁶ The Attorney General explained that the average poverty rate in Big Sandy RECC's service territory is 29 percent, with the highest poverty rate of 48.1 percent in Martin County and the lowest of 20.6 percent in Lawrence County.¹⁴⁷

¹⁴¹ Big Sandy RECC's Response to Attorney General's Second Request, Item 26. Big_Sandy_2023_PresPropRates-Updated-AG2-26.xlsx, Billing Detail tab.

¹⁴² Wolfram Rebuttal Testimony, Exhibit JW-9.

¹⁴³ Big Sandy RECC's Response to Attorney General's Post-Hearing Request, Item 2. Big_Sandy_2023_PresPropRates-PostHearing.xlsx, Billing Detail Tab.

¹⁴⁴ Attorney General Post-Hearing Brief at 4.

¹⁴⁵ Attorney General Post-Hearing Brief at 7.

¹⁴⁶ Attorney General Post-Hearing Brief at 5.

¹⁴⁷ Attorney General Post-Hearing Brief at 5.

Additionally, the Attorney General argued in its post-hearing brief, that if the Commission were to grant the requested \$29.00 residential monthly customer charge, that the increase be implemented in a two-phase approach, with the first phase the residential monthly customer charge increased to \$25.48 in the first year, and then under the second phase increased to \$29.00 in the second year. Finally, the Attorney General noted that if the Commission approved the requested increase to the residential monthly customer charge and energy charge, then the residential customers would be paying \$1.98 less than the monthly customer charge of the Commercial and Small Power customers.¹⁴⁸

Big Sandy RECC argued that the Attorney General is making unwarranted comparisons between the cooperatives.¹⁴⁹ Additionally, Big Sandy RECC chose to move gradually towards the cost-based rate of \$43.21 that was supported by the COSS. Big Sandy RECC chose a more incremental and manageable approach for its customers by proposing to increase the A-1 Farm & Home customer charge from \$21.95 to \$29.00.¹⁵⁰

The Commission gives substantial weight to the evidence from the COSS that all rate classes with proposed rate increases are earning less revenue relative to their cost to serve. The Commission acknowledges the importance of gradually moving towards the cost-based rates. The Commission also acknowledges the Attorney General's arguments regarding Big Sandy RECC's proposed 32.12 percent increase to the residential customer charge. The Commission must weigh these factors and strike a

¹⁴⁸ Attorney General Post-Hearing Brief at 7.

¹⁴⁹ Big Sandy RECC's Post-Hearing Brief at 10.

¹⁵⁰ Big Sandy RECC's Post-Hearing Brief at 9.

balance between the customers' financial interest and the utility's ability to provide adequate, reliable service.

Based upon the Commission-approved revenue increase of \$2,827,493, the Commission finds Big Sandy RECC's proposed allocation of revenue to the classes of service is not reasonable. The Commission finds the proposed revenue allocation of the A-1 Farm & Home to be disproportionate to the findings in the filed COSS after the Commission's revisions to the revenue increase. Therefore, the A-1 Farm & Home allocation needs to be addressed. The Commission notes that it has consistently found it reasonable to raise the customer charge in utility rate cases to reflect better the fixed costs inherent in providing utility service. However, the Commission has also found it reasonable to embrace the principle of gradualism in ratemaking, which mitigates the financial impact of rate increases on customers while providing reasonable rates.

Therefore, the Commission finds that Big Sandy RECC's A-1 Farm & Home customer charge should increase from \$21.95 to \$28.32, a 29 percent increase. By increasing the customer charge \$6.37, it allows Big Sandy RECC to recover an additional \$886,214 in fixed revenue. The A-1 Farm & Home energy charge will increase from \$0.10064 per kWh to \$0.11180 per kWh. Utilizing the Commission's revenue increase of \$2,827,493, for an A-1 Farm & Home customer with an average monthly usage of 1,027 kWh¹⁵¹, the average bill increases by \$17.83, or 12.76 percent, from \$125.31 to \$143.14. The changes in the rate design reflect a \$2,480,565, or 12.76 percent revenue increase for the A-1 Farm & Home class.

¹⁵¹ Wolfram Direct Testimony, Exhibit JW-9 at 2.

Regarding the other rate classes with proposed rate revisions, the Commission finds the rates in the February 28, 2025, post-hearing data response to Attorney General¹⁵² reasonable and finds that those rates, which are reflected in Appendix B to this Order, should be approved as filed.

TARIFFS

Big Sandy RECC filed revised tariff sheets to reflect the proposed rate revisions. Upon review of tariff sheet No. 13, Schedule YL-1, the Commission finds a need for updated language. Regarding the section labeled “Type of Service,” Big Sandy RECC stated the tariff is attributable to mercury vapor type lighting or an equivalent lighting unit.¹⁵³ However, the tariff does not provide a list of equivalent lighting units. Therefore, the Commission finds there is a need for transparency in the tariff, and Big Sandy RECC should file an updated tariff that lists the equivalent lighting units.

BIG SANDY FORESTRY

Big Sandy Forestry, LLC (Big Sandy Forestry) is a wholly owned subsidiary of Big Sandy RECC, formed in 2023 to evaluate the cost of vegetation management and ROW work.¹⁵⁴ The Board of Big Sandy RECC and Big Sandy Forestry are the same individuals.¹⁵⁵ Big Sandy RECC explained that Big Sandy Forestry is an attempt to see if the cost of vegetation management performed by competitive bidding contractors could

¹⁵² Big Sandy RECC’s Response to Attorney General’s Post-Hearing Request, Item 2. Big_Sandy_2023_PresPropRates-PostHearing.xlsx, Billing Detail tab.

¹⁵³ Application, Exhibit 3 at 5, and Exhibit 4 at 5.

¹⁵⁴ Big Sandy’s Response to Attorney General’s Second Request, Item 20a and 20f.

¹⁵⁵ Big Sandy’s Response to Attorney General’s Second Request, Item 21b.

be reduced by utilizing subsidiary crews.¹⁵⁶ Big Sandy RECC explained that Big Sandy Forestry does not participate in the bidding process for contracting firm circuit work.¹⁵⁷ Instead, Big Sandy Forestry assists with off-cycle tree trimming.¹⁵⁸ Big Sandy RECC requests pricing from vegetation contractors for firm circuit work and crews.¹⁵⁹ Big Sandy RECC then sets the Big Sandy Forestry contract price at a rate near the lowest bidder from external contractors.¹⁶⁰ Big Sandy Forestry has no other customers or revenue sources other than Big Sandy RECC.¹⁶¹ Big Sandy RECC stated that creating Big Sandy Forestry allowed Big Sandy RECC to ensure laborers would be available to assist with off-cycle tree trimming.¹⁶² Big Sandy RECC explained that this allows the contractors that bid on the circuit trimming to focus on cutting as many cycle miles as possible.¹⁶³

Big Sandy RECC argued that Big Sandy Forestry creates no additional costs for ratepayers, pays its own expenses, and carries its own insurance.¹⁶⁴ Big Sandy RECC explained that Big Sandy RECC bills Big Sandy Forestry for expenses paid through Big

¹⁵⁶ Big Sandy's Response to Attorney General's Second Request, Item 21a.

¹⁵⁷ Big Sandy RECC's Response to Commission Staff's Post-Hearing Request for Information (Staff's Post-Hearing Request) (filed Feb. 28, 2025), Item 14.

¹⁵⁸ Big Sandy RECC's Post-Hearing Brief at 5-6.

¹⁵⁹ Big Sandy RECC's Response to Attorney General's Second Request, Item 20b.

¹⁶⁰ Big Sandy RECC's Response to Attorney General's Second Request, Item 20b.

¹⁶¹ Big Sandy RECC's Response to Attorney General's First Request, Item 22c.

¹⁶² Big Sandy RECC's Post-Hearing Brief at 5-6.

¹⁶³ Big Sandy RECC's Post-Hearing Brief at 5-6.

¹⁶⁴ Big Sandy RECC's Post-Hearing Brief at 5-6.

Sandy RECC general funds and would be a washing entry. Therefore, these costs would not be included in the revenue requirement.¹⁶⁵

Big Sandy RECC provided a breakdown of profits and expenses for Big Sandy Forestry:¹⁶⁶

Description	Amount
2023 Total Income	\$ 185,567.96
2023 Total Operating Expenses	182,640.10
2023 Net Income	<u>\$ 2,927.86</u>
2024 Total Income	351,182.89
2024 Total Operating Expenses	311,823.18
2024 Net Income	<u>\$ 39,359.71</u>

Big Sandy Forestry maintains separate books and accounts for all activities.¹⁶⁷ All the costs of any Big Sandy RECC employee providing a service for Big Sandy Forestry are allocated to Big Sandy Forestry.¹⁶⁸ Big Sandy RECC explained that it strives to allocate labor at Big Sandy Forestry's actual cost, including overhead and the actual cost of any supplies.¹⁶⁹ Big Sandy RECC explained that it does not have a formal written policy related to the allocation of costs between Big Sandy Forestry and Big Sandy RECC, but that Big Sandy Forestry pays for any and all expenses it incurs, including labor and materials.¹⁷⁰

¹⁶⁵ Big Sandy RECC's Response to Attorney General's Post-Hearing Request, Item 4i.

¹⁶⁶ Big Sandy RECC's Response to Commission Staffs Post-Hearing Request, Item 6 and 7.

¹⁶⁷ Big Sandy RECC's Response to Attorney General's Post-Hearing Request, Item 4j.

¹⁶⁸ Big Sandy RECC's Response to Attorney General's Post-Hearing Request, Item 4j.

¹⁶⁹ Big Sandy RECC's Response to Staff's Post-Hearing Request, Item 10.

¹⁷⁰ Big Sandy RECC's Response to Staff's Post-Hearing Request, Item 10.

The Attorney General stated it has a multitude of concerns as to Big Sandy Forestry since it is a nonregulated entity, such as whether there are any cost subsidizations that Big Sandy RECC is providing to Big Sandy Forestry; Big Sandy RECC admitted it does not have a formal written policy concerning the allocation of costs to Big Sandy Forestry; whether the affiliate transaction laws and regulations are being fully complied with; whether it is problematic for Big Sandy RECC to issue requests for proposal (RFPs) to vegetation management companies and then appear to allow Big Sandy Forestry to review those confidential proposals to try to get to a rate near the lowest bid.¹⁷¹

The Attorney General recommended a thorough review of Big Sandy RECC's wholly owned subsidiary, Big Sandy Forestry, to ensure that it is actually reducing right-of-way maintenance costs for the member customers and to determine whether it is in complete compliance with all applicable laws and regulations.¹⁷²

Having considered the record and being otherwise sufficiently advised, the Commission finds that Big Sandy Forestry is an affiliate of Big Sandy RECC pursuant to the definition provided in KRS 278.010. The evidence provided by Big Sandy RECC demonstrates that Big Sandy Forestry is controlled by, or under common control with, Big Sandy RECC. Therefore, as a post-case filing, the Commission finds that Big Sandy RECC should provide evidence of its compliance with KRS 278.2213 and 278.2207 within 60 days of the entry of this Order.

¹⁷¹ Attorney General's' Post-Hearing Brief at 10–11.

¹⁷² Attorney General's Post-Hearing Brief at 11.

Furthermore, as Big Sandy RECC's stated purpose is to evaluate the cost of vegetation management/ROW work and an attempt to see if the cost of vegetation management performed by competitive bidding contractors could be reduced utilizing subsidiary crews, the Commission finds that Big Sandy RECC should provide an analysis of these stated purposes in its following rate case. In this analysis, Big Sandy RECC should provide a thorough review of costs and provide evidence that Big Sandy RECC's contracts are based on Big Sandy Forestry's fully distributed cost. The Commission shares the concerns of the Attorney General regarding the allocation of costs between Big Sandy RECC and Big Sandy Forestry, as well as Big Sandy Forestry's use of bids from other vegetation management companies. The Commission recommends that Big Sandy RECC and Big Sandy Forestry create more defined written policies regarding the allocation of costs and explore creating a contract specific to off-circuit clearing. Big Sandy RECC and Big Sandy Forestry's right-of-way contracting appears to be a standard circuit contract.

The Commission is also concerned that Big Sandy Forestry's expenses are not being recovered as right-of-way expenses in the revenue requirement, and therefore, Big Sandy RECC may not be appropriately reviewing its expenses related to Big Sandy Forestry. The Commission recommends that Big Sandy RECC consider including any expenses from Big Sandy Forestry in its revenue requirement in any future rate case.

IT IS THEREFORE ORDERED that:

1. The rates proposed by Big Sandy RECC are denied.

2. The rates and charges, as set for in Appendix B to this Order, are approved as fair, just and reasonable rates for Big Sandy RECC, and these rates and charges are approved for service rendered on and after the date of the entry of this Order.

3. Big Sandy RECC shall provide evidence of its compliance with KRS 278.2213 and 278.2207 within 60 days of the entry of this Order.

4. Big Sandy RECC shall file updated tariff language addressing the lighting tariff consistent with the findings in this Order.

5. Within 20 days of the date of the entry of this Order, Big Sandy RECC shall file with the Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and reflecting its effect date and that it was authorized by this Order.

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

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Linda Bridwell RP
Executive Director



Case No. 2024-00287

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00287 DATED JUN 20 2025

Summary of Pro Forma Adjustments

	Big Sandy RECC	Big Sandy RECC Revised	Commission	Difference
Revenues				
Fuel Adjustment Clause	\$ (2,344,584)	\$ (2,344,584)	\$ (2,344,584)	\$ -
Environmental Surcharge	(2,508,036)	(2,508,036)	(2,508,036)	-
Year-End Customer Normalization	(80,017)	(80,017)	(80,017)	-
	(4,932,637)	(4,932,637)	(4,932,637)	-
Expenses				
Fuel Adjustment Clause	(2,151,171)	(2,151,171)	(2,151,171)	-
Environmental Surcharge	(2,424,057)	(2,424,057)	(2,424,057)	-
Depreciation Expense Normalization	376,017	(58,093)	(58,093)	-
Year-End Customer Normalization	(66,068)	(72,908)	(66,068)	6,840
Rate Case Expenses	25,333	25,333	33,025	7,692
Donations, Advertising & Dues	(15,038)	(15,038)	(15,038)	-
Professional Services	(54,567)	(54,567)	(54,567)	-
Directors Expense	(12,309)	(22,703)	(22,703)	-
Wages & Salaries	170,101	17,528	17,528	-
Overtime Wages			(41,605)	(41,605)
Life Insurance Premiums	(12,759)	(12,759)	(12,759)	-
Right of Way	698,996	698,996	698,996	-
Interest Expense	119,118	119,118	119,118	-
	(3,346,403)	(3,950,320)	(3,977,394)	(27,073)
Changes in Net Income	\$ (1,586,234)	\$ (982,317)	\$ (955,244)	\$ 27,073

Description	Actual Rates Actual Test Yr	Pro Forma Adjustment	Present Rates Adj Test Yr	Proposed Rates Adj Test Yr
<u>Operating Revenues</u>				
Total Sales of Electric Energy	25,671,962	(4,932,637)	20,739,325	23,566,818
Other Electric Revenue	890,207		890,207	890,207
Total Operating Revenue	26,562,169	(4,932,637)	21,629,532	24,457,025
<u>Operating Expenses:</u>				
Purchased Power	17,827,633	(4,641,296)	13,186,337	13,186,337
Distribution Operations	1,371,665	-	1,371,665	1,371,665
Distribution Maintenance	2,426,456	698,996	3,125,452	3,125,452
Customer Accounts	1,114,800	-	1,114,800	1,114,800
Customer Service	126,436	-	126,436	126,436
Sales Expense	39	-	39	39
A&G	1,607,355	(96,119)	1,511,236	1,511,236
Total O&M Expense	24,474,384	(4,038,419)	20,435,965	20,435,965
Depreciation	2,629,280	(58,093)	2,571,187	2,571,187
Taxes - Other	25,966		25,966	25,966
Interest on LTD	778,919	119,118	898,037	898,037
Interest - Other	176,158		176,158	176,158
Other Deductions	14,010		14,010	14,010
Total Cost of Electric Service	28,098,717	(3,977,394)	24,121,323	24,121,323
Utility Operating Margins	(1,536,548)	(955,244)	(2,491,792)	335,701
Non-Operating Margins - Interest	297,572		297,572	297,572
Income(Loss) from Equity Investments	-		-	-
Non-Operating Margins - Other	141,740		141,740	141,740
G&T Capital Credits	412,311	(412,311)	-	-
Other Capital Credits	123,024		123,024	123,024
Net Margins	(561,901)	(1,367,555)	(1,929,456)	898,037
Cash Receipts from Lenders	46,904		46,904	46,904
OTIER	(0.91)		(1.72)	1.43
TIER	0.28		(1.15)	2.00
TIER excluding GTCC	(0.25)		(1.15)	2.00
Target TIER	2.00		2.00	2.00
Margins at Target TIER	778,919		898,037	898,037
Revenue Requirement at Target TIER	28,877,636		25,019,360	25,019,360
Revenue Deficiency at Target TIER	1,340,820		2,827,493	(0)
Variance from Target TIER			(3.15)	-
Increase (\$) >				\$ 2,827,493
Increase (%) >				11.01%

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00287 DATED JUN 20 2025

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

A-1 Farm & Home

Customer Charge	\$28.32 per month
Energy Charge	\$0.11180 per kWh

A-2 Commercial and Small Power

Energy Charge	\$0.08160 per kWh
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LP Large Power

Energy Charge Primary	\$0.07320 per kWh
Energy Charge Secondary	\$0.08037 per kWh

LPR Large Power

Energy Charge Primary	\$0.06506 per kWh
Energy Charge Secondary	\$0.07141 per kWh

IND 1-B Industrial

Demand Charge- Contract	\$7.49 per kW
Demand Charge- Excess	\$9.98 per kW
Energy Charge Primary	\$0.06927 per kWh
Energy Charge Secondary	0.07006 per kWh

YL-1 Lighting

175-Watt Mercury Vapor	\$11.28 per month
400-Watt Flood Mercury Vapor	\$23.02 per month
400-Watt Mercury Vapor	\$17.38 per month
500-Watt Mercury Vapor	\$20.71 per month
1500-Watt Mercury Vapor	\$49.39 per month

YL-1 Equivalent Lighting

175-Watt Mercury Vapor:

150-Watt High Pressure Sodium	\$11.28 per month
85-Watt Induction	\$11.28 per month
55-Watt LED	\$11.28 per month
60-Watt LED	\$11.28 per month
65-Watt LED	\$11.28 per month
70-Watt LED	\$11.28 per month
100-Watt Metal Halide	\$11.28 per month

400-Watt Flood Mercury Vapor:

250-Watt Flood Metal Halide	\$23.02 per month
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400-Watt Mercury Vapor:

146-Watt Flood	\$17.38 per month
250-Watt High Pressure Sodium	\$17.38 per month
145-Watt LED	\$17.38 per month
250-Watt Metal Halide	\$17.38 per month

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