

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF SOUTH)	
KENTUCKY RURAL ELECTRIC COOPERATIVE)	CASE NO.
CORPORATION FOR A GENERAL)	2024-00402
ADJUSTMENT OF RATES AND OTHER)	
GENERAL RELIEF)	

ORDER

On February 3, 2025, South Kentucky Rural Electric Cooperative Corporation (South Kentucky RECC) pursuant to KRS 278.180, KRS 278.190, and 807 KAR 5:001, filed an application requesting an increase to its rates.

BACKGROUND

South Kentucky RECC is a not-for-profit, member-owned, rural electronic distribution cooperative organized under KRS Chapter 279. South Kentucky RECC is engaged in the business of distribution retail electric power to approximately 52,000 members in Adain, Casey, Clinton, Cumberland, Laurel, Lincoln, McCreary, Pulaski, Russell, and Wayne counties.¹ South Kentucky RECC owns approximately 7,100 circuit miles of distribution line in its service territory.² South Kentucky RECC does not own any electric generating facilities and is one of the 16-member cooperatives that own and receive wholesale power from East Kentucky Power Cooperative, Inc.

¹ Application (filed Feb. 3, 2025) at unnumbered PDF page 1.

² Application at unnumbered PDF page 1.

In its application, South Kentucky RECC requested an increase in revenues of \$10,766,999, or 7.16 percent to achieve a OTIER of 1.85.³ South Kentucky RECC also requested an increase of the Residential, Farm and Non-Farm Service consumer charge from \$17.50 to \$30.75 and an increase in the per-kWh energy charge from \$0.09816 per kWh to \$0.09869 per kWh.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 February 19, 2025, the Commission suspended the proposed rates up to and including August 5, 2025, and established a procedural schedule.⁶ An informal technical conference (ITC) was held on February 26, 2025.⁷ South Kentucky RECC filed direct and rebuttal testimony and responded to multiple rounds of discovery.⁸

A hearing was held on July 17, 2025. On August 8, 2025, South Kentucky RECC and the Attorney General submitted their initial briefs, and on August 15, 2025, South Kentucky RECC submitted its response brief. On August 20, 2025, South Kentucky

³ Application at unnumbered PDF page 2.

⁴ Application at unnumbered PDF page 3.

⁵ Order (Ky. PSC Jan. 30, 2025).

⁶ Order (Ky. PSC Feb. 19, 2025).

⁷ Order (Ky. PSC Mar. 11, 2025).

⁸ South Kentucky RECC's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Mar. 3, 2025); South Kentucky RECC's Revised Response to Staff's First Request (filed Mar. 4, 2025); South Kentucky RECC's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Mar. 28, 2025); South Kentucky RECC's Response to the Attorney General's First Request for Information (Attorney General's First Request) (filed Apr. 11, 2025); South Kentucky RECC's Response to Commission Staff's Third Request for Information (Staff's Third Request) (filed May 7, 2025); South Kentucky RECC's Response to the Attorney General's Second Request for Information (Attorney General's Second Request) (filed May 7, 2025).

RECC filed a notice of intent to place rates into effect on or after September 1, 2025.⁹ The Commission issued an Order on September 9, 2025, requiring South Kentucky 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 to whom, in the event a refund is ordered.¹⁰ This matter now stands submitted to the Commission for a decision.

LEGAL STANDARD

South Kentucky 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."¹¹ South Kentucky 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).

TEST PERIOD

South Kentucky RECC used as its historical test period the 12-month period ending May 31, 2024.¹² No intervenor contested the use of this period as the test period. The Commission finds that it is reasonable to use the 12-month period ending May 31, 2024, as the test period in this case based on the timing of South Kentucky RECC's application.

⁹ South Kentucky RECC originally tendered a notice of intent to place rates into effect on August 19, 2025, however the notice failed to comply with all of the filing requirements set forth in 807 KAR 5:001, Section 4(3)(a). As a result of the deficiency, the docket entry should be maintained, but the tendered document should be stricken from the administrative record of this case and replaced with a document indicating it has been stricken.

¹⁰ Order (Ky. PSC Sep. 9, 2025) at 3.

¹¹ KRS 278.300; *Pub. Serv. Comm'n v. Com. Ex rel. Conway*, 324 S.W.3d 373, 377 (Ky.2010).

¹² Application at unnumbered PDF page 2.

REVENUE REQUIREMENT

Revenue and Expense Adjustments

South Kentucky RECC proposed 21 adjustments to normalize its test-year operating revenue and expenses. The Commission finds that seven of the proposed adjustments are reasonable and should be accepted without change. Shown below are the adjustments accepted by the Commission without change:

- Fuel Adjustment Clause – \$(632,610)¹³
- Environmental Surcharge - \$(164,651)¹⁴
- Donations, Advertising, and Dues - \$668,129¹⁵
- Directors' Expenses - \$2,461¹⁶
- Professional Services - \$578,100¹⁷
- G&T Caprial Credits - \$(2,018,096)¹⁸
- Life Insurance - \$23,886¹⁹

The Commission modified South Kentucky RECC's other proposed adjustments and made additional adjustments as discussed in more detail below. A summary of all of the Commission's adjustments is on page 30.

¹³ Application, Exhibit 10, Attachment JW-2, Reference Schedule: 1.01.

¹⁴ Application, Exhibit 10, Attachment JW-2, Reference Schedule: 1.02.

¹⁵ Application, Exhibit 10, Attachment JW-2, Reference Schedule: 1.06.

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

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

¹⁸ Application, Exhibit 10, Attachment JW-2, Reference Schedule: 1.12.

¹⁹ Application, Exhibit 10, Attachment JW-2, Reference Schedule: 1.15.

Rate Case Expense

South Kentucky RECC proposed a total Rate Case Expense of \$160,000²⁰ amortized over three years for \$53,333 per year.²¹ South Kentucky RECC was directed to file monthly updates to its Rate Case Expenses with invoices,²² with the last update filed on September 30, 2025, for expenses through September 30, 2025.²³ In its final monthly rate case expense update, South Kentucky RECC provided its actual total Rate Case Expense of \$103,177 which, amortized over three years, is \$34,392 per year.²⁴

The Commission finds that based on the updated expense summaries last provided to the Commission, and throughout the pendency of this case, the appropriate Rate Case Expenses are \$103,177. The Commission also finds that the appropriate amortization period is three years. The Commission has historically approved three-year amortization periods for rate case expenses.²⁵ That amount, amortized over three years, equates to \$34,392 per year, and the adjustment should be accepted because it accurately reflects the actual Rate Case Expense incurred in this case.

²⁰ Application, Exhibit 10, Attachment JW-2, Reference Schedule: 1.03 at 2.

²¹ Application, Exhibit 10, Attachment JW-2, Reference Schedule: 1.03 at 2.

²² Commission Staff's First Request for Information to South Kentucky RECC (issued Feb. 10, 2025), Item 36.

²³ South Kentucky RECC's Supplemental Response to Staff's First Request, Item 36 (filed Sept. 30, 2025).

²⁴ South Kentucky RECC's Supplemental Response to Staff's First Request, Item 36.

²⁵ See i.e. Case No. 2024-00085, *Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment of Rates and Other General Relief*, (Ky. PSC Feb. 28, 2025), final Order at 18; 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), final Order at 8.

Year-End Customers

South Kentucky RECC proposed a \$498,438 decrease to the revenue requirement to reflect the number of customers at the end of the test year.²⁶ South Kentucky RECC explained that the numbers of customers served at the end of the test period for some rate classes differed from the average number of customers for the test year.²⁷ In response to Staff's Second Request, South Kentucky RECC corrected the Year-End Customer adjustment, which put the month and year entries in chronological order, and resulted in a \$780,703 increase to the revenue requirement.²⁸

The Attorney General argued that South Kentucky RECC's original calculation contained an error on its face.²⁹ The Attorney General stated that South Kentucky RECC's application compared the customer counts for each class at the end of the test year, May 31, 2024, to the average customer count for each rate tariff class during the test year.³⁰ The Attorney General further stated that South Kentucky RECC's application compared in error the customer counts for each class at the end of December 2023 to the average customer count for each class during the test year.³¹ Additionally, the Attorney General stated that South Kentucky RECC's relatively large number of customers who switched tariff rate classes were "considerably distorted".³² The Attorney

²⁶ Application, Exhibit 10, Attachment JW-2, Reference Schedule: 1.04 at 8.

²⁷ Direct Testimony of John Wolfram (Wolfram Direct Testimony) (filed Feb. 3, 2025) at 10.

²⁸ South Kentucky RECC's Response to Staff's Second Request, Item 13, Attachment.

²⁹ Direct Testimony of Randy Futral (Futral Direct Testimony) (filed May 19, 2025) at 47.

³⁰ Futral Direct Testimony at 47.

³¹ Futral Direct Testimony at 47.

³² Futral Direct Testimony at 48-49.

General explained that South Kentucky RECC switched a group of customers in its Large Power and Optional Power Service rate classes to its Small Commercial rate class starting in March 2024.³³ The Attorney General argued that this created the appearance of a very large net revenue decrease without any basis for it, and stated that South Kentucky RECC had not indicated that it did, or will, experience a loss of this many kWh sales due to changes in customer counts after the end of the test year.³⁴ As such, the Attorney General recomputed the adjustment.³⁵ The Attorney General recommended that, should the Commission decide to adjust South Kentucky RECC's annualization of year end customers on its revenues and expenses in the application, the Commission should do so on the true apples-to-apples comparison and reject South Kentucky RECC's proposed revision.³⁶ The Attorney General stated that its comparison yields a projected increase in revenues of \$780,863 and a projected increase of purchase power expense of \$489,056, resulting in a net revenues increase of \$291,807.³⁷

South Kentucky RECC indicated that the Attorney General's recommendation was reasonable.³⁸ South Kentucky RECC recommended that the Commission adjust the annualization of year end customers on its revenues and expenses in the application, based on the rate switching.³⁹ South Kentucky RECC stated that the analysis reasonably

³³ Futral Direct Testimony at 49.

³⁴ Futral Direct Testimony at 50.

³⁵ Futral Direct Testimony at 52-53.

³⁶ Futral Direct Testimony at 53.

³⁷ Futral Direct Testimony at 53.

³⁸ Rebuttal Testimony of John Wolfram (Wolfram Rebuttal Testimony) (filed June 13, 2025) at 10.

³⁹ Wolfram Rebuttal Testimony at 10.

factors the rate switching between classes into the more traditional adjustment for rate class growth captured in a year-end customer adjustment.⁴⁰

The Commission agrees with the Attorney General's recomputed adjustment of the Year-End Customer Normalization. However, the Commission finds that the Attorney General's adjustment should be modified to round to the nearest whole customer. The effect of this modification is an adjustment from the calculated \$206,631 increase to South Kentucky RECC's revenue requirement from Year-End Customer Normalization, to \$202,855 after rounding to the nearest whole customer. The Commission finds that South Kentucky RECC's revenue requirement should be increased by \$202,855 for Year-End Customer Normalization.

Depreciation Expense

South Kentucky RECC proposed a \$810,903 increase to Depreciation Expense to reflect normalized depreciation expenses by replacing test year actual expenses with test year-end balances (less any fully depreciated items).⁴¹ In response to the Attorney General's First Request, South Kentucky RECC provided an updated Depreciation Expense calculation that lowered the \$810,903 proposed increase to an increase of \$791,391, a reduction of \$19,512.⁴² South Kentucky RECC explained that the changes resulted from the discovery that some fully depreciated items were inadvertently omitted from the original schedule and that the schedule was revised to correct the omission and

⁴⁰ Wolfram Rebuttal Testimony at 10.

⁴¹ Application, Exhibit 10, Attachment JW-2, Reference Schedule 1.05 and Wolfram Direct Testimony at 11..

⁴² South Kentucky RECC's Response to the Attorney General's First Request, Item 69; Revised Schedule 1.05.

provide accurate information.⁴³ The Attorney General agreed with South Kentucky RECC's revised Depreciation Expense Calculation which resulted in a decrease of \$19,512 to the Depreciation Expense.⁴⁴

The Commission accepts the adjustment contained in South Kentucky RECC's revised schedule and finds that the revenue requirement should be increased by \$791,391, instead of \$810,903, because it accurately reflects South Kentucky RECC's depreciable plant.

FEMA Reimbursements

South Kentucky RECC proposed removing \$420,685 in FEMA declared storm expenses and \$1,416,873 in FEMA declared storm expense reimbursements, both deemed non-recurring.⁴⁵ In response to the Attorney General's First Request, South Kentucky RECC stated there was an entry error.⁴⁶ South Kentucky RECC stated that it had recorded \$655,473 in FEMA declared storm expenses during the test year instead of the \$420,685 used in the adjustment calculation from the application.⁴⁷ This resulted in a \$761,400 increase to the revenue requirement instead of a \$996,188 increase.⁴⁸ The Attorney General agreed with this adjustment.⁴⁹

⁴³ South Kentucky RECC's Response to the Attorney General's Second Request, Item 12.

⁴⁴ Futral Direct Testimony at 41.

⁴⁵ Application, Exhibit 10, Attachment JW-2, Reference Schedule 1.07 and Wolfram District Testimony at 11.

⁴⁶ South Kentucky RECC's Response to the Attorney General's First Request, Item 50.

⁴⁷ South Kentucky RECC's Response to the Attorney General's First Request, Item 50g.

⁴⁸ South Kentucky RECC's Response to the Attorney General's First Request, Item 50, Attachment.

⁴⁹ Futral Direct Testimony at 25.

The Commission agrees with using the corrected FEMA Reimbursement Expense and finds that the revenue requirement should be increased by \$234,788 to reflect the correct amount of \$761,400 of FEMA reimbursements removed from the test year.

Retirement Plan & 401K

South Kentucky RECC proposed a \$360,833 increase to the revenue requirement to normalize test year utility contributions to Nation Rural Electric Cooperative Association (NRECA) Retirement and Security Program and NRECA Savings Plan 401(k) based on the most recent contribution rates.⁵⁰ In its response to the Attorney General's Second Request, South Kentucky RECC stated there was an error in the summation formula⁵¹ and provided a revised schedule showing a corrected adjustment of a \$367,924 increase to the revenue requirement.⁵² The Attorney General agreed with the revised Reference Schedule 1.09 as a starting point.⁵³

The Attorney General recommended reducing the revised retirement expense amount to account for the one-year waiting period for each new employee, until such costs are incurred.⁵⁴ The Attorney General recommended using a three-year average of

⁵⁰ Application, Exhibit 10, Attachment JW-2, Reference Schedule:1.09 and Wolfram Direct Testimony at 12.

⁵¹ South Kentucky RECC's Response to the Attorney General's Second Request, Item 11.

⁵² South Kentucky RECC's Response to the Attorney General's First Request, Item 59(h), Attachment and South Ky Rev Req 2024 Revised AG1 4/11/2025.

⁵³ Futral Direct Testimony at 29.

⁵⁴ Futral Direct Testimony at 32.

19 new hires each year.⁵⁵ The Attorney General stated that this adjustment would result in a \$266,412 reduction to the Retirement Plan Expense.⁵⁶

In rebuttal, South Kentucky RECC disagreed with the Attorney General's recommendation of using the average of 19 new hires each year and argued that 2023 and 2024 had abnormally high turnover.⁵⁷ South Kentucky RECC further argued that this turnover was due to unionization and projected only six new employees in 2025.⁵⁸ South Kentucky RECC also provided the history of new hires by year back to 2015.⁵⁹

In the Attorney General's Post-Hearing Brief, the Attorney General stated that based on the updated data provided by South Kentucky RECC dating back to 2015, the average new hire per year was 12.⁶⁰ The Attorney General further stated that using an average of 12 new hires per year resulted in a reduction of \$168,260 from South Kentucky RECC's requested rate increase.⁶¹ The Attorney General argued that South Kentucky RECC's customers should not be responsible to pay the benefits for new hires that are not eligible for said benefits.⁶²

The Commission agrees with the correction of the summation error and finds that the revenue requirement should increase by \$367,924 to normalize test year utility

⁵⁵ Futral Direct Testimony at 32.

⁵⁶ Futral Direct Testimony at 32.

⁵⁷ Rebuttal Testimony of Carrie Bessinger (Bessinger Rebuttal Testimony) (filed June 13, 2025) at 7-8.

⁵⁸ Bessinger Rebuttal Testimony at 8.

⁵⁹ Bessinger Rebuttal Testimony at 8.

⁶⁰ Attorney General's Post-Hearing Brief (filed Aug. 8, 2025) at 10.

⁶¹ Attorney General's Post-Hearing Brief at 10.

⁶² Attorney General's Post-Hearing Brief at 10.

contributions to NRECA Retirement and Security Program and NRECA Savings Plan 401(k). The Commission finds that the Attorney General's proposed \$168,260 reduction to account for the one-year waiting period for new hires to be eligible for retirement benefits should be denied. The Commission agrees with South Kentucky RECC's argument that the installation of a union and change in executive leadership likely skewed the number of new hires upwards for the years 2023 and 2024, as shown in the history of new hires provided by South Kentucky RECC. The Commission finds that South Kentucky RECC's corrected adjustment to normalize test year utility contributions to NRECA Retirement and Security Program and NRECA Savings Plan 401(k) based on the most recent contribution rates is reasonable and should be accepted.

Salary and Wages

South Kentucky RECC proposed a \$404,318 increase to the revenue requirement to normalize South Kentucky RECC's employee wages and salaries to account for changes due to wage increases, departures, or new hires.⁶³ In rebuttal testimony, South Kentucky RECC proposed a revision to wages and salaries to \$406,560. South Kentucky RECC stated that the proposed increase of \$2,242 to wages was due to minor clerical errors.⁶⁴ The Attorney General did not raise any objections.

The Commission finds that South Kentucky RECC's revised proposed \$406,560 increase to the revenue requirement should be accepted. The Commission finds that South Kentucky RECC's requested increase for wages and salaries is reasonable, and

⁶³ Application, Exhibit 10, Attachment JW-2, Reference Schedule 1.10 and Wolfram District Testimony at 12.

⁶⁴ Wolfram Rebuttal Testimony at 11.

the compensation levels are supported by the wage and salary study provided by South Kentucky RECC.

Payroll Taxes

South Kentucky RECC proposed a \$60,775 increase to the revenue requirement to normalize test year payroll taxes for FICA, Medicare, Federal Unemployment Tax Act (FUTA), and State Unemployment Tax Act (SUTA) based on the most recent effective rates.⁶⁵ In its response to the Attorney General's First Request, South Kentucky RECC stated the proforma tax calculation did not reduce total wages by the non-taxable portion.⁶⁶ South Kentucky RECC stated that the tax amount reported for the test year was calculated on taxable wages, which removed certain pre-tax deductions and added in taxable benefits to arrive at taxable wages.⁶⁷

The Attorney General argued that South Kentucky RECC overstated the proforma amount of payroll taxes above the amount that would actually be incurred.⁶⁸ The Attorney General argued that the non-taxable portion of the wages and salaries should be considered as part of the proforma adjustment since it was considered in the actual test year payroll tax amounts.⁶⁹ The Attorney General further stated that the overall payroll tax percentage of total salaried and wages was only 7.28 percent in the test year, while the overall payroll tax percentage of total salaries and wages in South Kentucky RECC's

⁶⁵ Application, Exhibit 10, Attachment JW-2, Reference Schedule 1.13 and Wolfram District Testimony at 13.

⁶⁶ South Kentucky RECC's Response to the Attorney General's First Request, Item 47.

⁶⁷ South Kentucky RECC's Response to the Attorney General's First Request, Item 47.

⁶⁸ Futral Direct Testimony at 27.

⁶⁹ Futral Direct Testimony at 27.

application amounted to 7.70 percent in the proforma test year.⁷⁰ The Attorney General recommended that the proforma increase amount on payroll tax expenses, based on the same average effective payroll tax rate experienced during the test year that included incorporation of non-taxable wage data, be corrected.⁷¹ The result would be a reduction to payroll tax expenses of \$31,361 which reduced the proforma tax increase percentage to 5.8 percent, the same as that associated with the increase for salaries and wages in the application.⁷² South Kentucky RECC did not address the Attorney General's recommendation in rebuttal.

The Commission agrees with the Attorney General's recommendation to reduce South Kentucky RECC's proposed \$60,775 increase to payroll taxes by \$31,361. The Commission finds that South Kentucky RECC's proposed increase to payroll tax should be reduced by \$31,361 to reflect the same percentage increase in payroll tax as the percentage increase to salaries and wages.

Interest on Long Term Debt

South Kentucky RECC proposed a \$66,155 increase to the revenue requirement to normalize the interest on Long Term Debt.⁷³ In its response to the Attorney General's First Request, South Kentucky RECC stated that there was a calculation error in the reporting of the actual test year Long-term Debt Interest Expense leading to a

⁷⁰ Futral Direct Testimony at 27.

⁷¹ Futral Direct Testimony at 27.

⁷² Futral Direct Testimony at 28.

⁷³ Application, Exhibit 10, Attachment JW-2, Reference Schedule 1.14 and Wolfram District Testimony at 13.

miscalculated proforma adjustment.⁷⁴ This correction resulted in a \$81,121 decrease to the revenue requirement at a 1.85 OTIER.⁷⁵

The Commission finds that South Kentucky RECC's correction to the test year Interest on Long Term Debt Interest Expense is reasonable and should be accepted to reflect the interest from the test period.

Dental and Health Insurance

South Kentucky RECC proposed a \$106,899 increase to the revenue requirement to adjust contributions to employee premiums for medical and dental insurance to reflect recent change in health care plans.⁷⁶ In response to the Attorney General's First Request, South Kentucky RECC revised its actual test year and projected test year amounts associated with various retiree health insurance benefits.⁷⁷ South Kentucky RECC stated that the changes resulted from the inadvertent misstatement of retiree benefits.⁷⁸ This revision resulted in a reduction of \$9,256, for a revised \$97,643 increase to the health and dental insurance expense.⁷⁹

⁷⁴ South Kentucky RECC's Response to the Attorney General's First Request, Item 51.

⁷⁵ South Kentucky RECC's Response to the Attorney General's First Request, Item 51(b); Revised Schedule 1.14.

⁷⁶ Application, Exhibit 10, Attachment JW-2, Reference Schedule 1.16 and Wolfram District Testimony at 13.

⁷⁷ South Kentucky RECC's Response to the Attorney General's First Request, Item 61(a); Revised Schedule 1.16.

⁷⁸ South Kentucky RECC's Response to the Attorney General's Second Request, Item 9.

⁷⁹ South Kentucky RECC's Response to the Attorney General's First Request, Item 61(a); Revised Schedule 1.16.

The Attorney General agreed with South Kentucky RECC's \$9,256 correction.⁸⁰ The Attorney General also argued that the recoverable health insurance expense for family coverage should be reduced to a more reasonable level based on the 2024 Bureau of Labor Statistics' (BLS) average for family coverage of 68 percent.⁸¹ The Attorney General stated that this would result in a reduction of health insurance expense of \$129,144, and a reduction in the claimed base revenue requirement and base rate increase of \$129,144.⁸² South Kentucky RECC did not address the Attorney General's BLS argument.

The Commission finds that the \$9,256 correction should be accepted. Additionally, the Commission disagrees with the Attorney General's argument to lower the contribution rate to the 2024 BLS average because South Kentucky RECC has union employees. Wage and benefit rates established in union contracts arise from arm's length negotiations between the employer and the union. Therefore, the Commission finds that the contribution rate should reflect the amount negotiated in good faith in the union contract and South Kentucky RECC's adjustment reflects that number.

Deferred Costs

South Kentucky RECC, in its application or testimony, did not propose any adjustments related to Deferred Costs.

⁸⁰ Futral Direct Testimony at 42.

⁸¹ Futral Direct Testimony at 44.

⁸² Futral Direct Testimony at 44.

The Attorney General recommended to reset the amortization period to three years for the unamortized deferred costs.⁸³ The Attorney General stated that the amortization period matches the requested amortization period for rate case expenses in this proceeding.⁸⁴ The Attorney General further stated that this reset would result in a reduction of South Kentucky RECC's amortization expense by \$32,712 for the prior rate case Deferred Costs and by \$57,209 for the old meter retirement loss deferred costs, for a total reduction of \$89,921 in amortization expense and in the base revenue requirement and requested base rate increase.⁸⁵

In rebuttal, South Kentucky RECC stated that the recommendation was reasonable and agreed to the adjustment.⁸⁶

The Commission finds that the Attorney General's proposal to reset the amortization period to three years, matching the amortization period Rate Case Expense granted above, and the resulting adjustment of \$89,921 to Deferred Costs is reasonable and should be accepted.

Supervisory Control and Data Acquisition (SCADA)

South Kentucky RECC, in its application or testimony, did not propose any adjustments to SCADA Expenses.

The Attorney General recommended the Station Expense-SCADA Expenses be reduced to remove expenses that are non-recurring in nature.⁸⁷ The Attorney General

⁸³ Futral Direct Testimony at 34.

⁸⁴ Futral Direct Testimony at 34.

⁸⁵ Futral Direct Testimony at 35.

⁸⁶ Wolfram Rebuttal Testimony at 8.

⁸⁷ Futral Direct Testimony at 36.

argued that members should not be responsible for expenses in the future that South Kentucky RECC likely will not incur.⁸⁸ The Attorney General's proposed reduction results in a \$19,880 reduction in Station-Expense-SCADA Expenses, and in the base revenue requirement and requested base rate increase.⁸⁹

In rebuttal, South Kentucky RECC agreed with the Attorney General's proposed reduction.⁹⁰

The Commission finds that the Attorney General's proposed adjustment to reduce of the Station Expense-SCADA Expenses by \$19,880 is reasonable and should be accepted as these are non-recurring items and should not be included in the proforma revenue requirement calculation.

Uncollectibles Expense

South Kentucky RECC did not propose any adjustments to Uncollectibles Expense.

The Attorney General proposed a \$32,679 reduction in the revenue requirement to reflect lower levels of Uncollectibles Expense from September 2023 through December 2024.⁹¹ The Attorney General stated that South Kentucky RECC's general ledger showed an elevation of expenses from March 2023 to August 2023.⁹² The Attorney General argued that the elevation of expense should not be considered recurring due to the effects of the non-application of capital credit refunds during the period, as well as a software

⁸⁸ Futral Direct Testimony at 36.

⁸⁹ Futral Direct Testimony at 36.

⁹⁰ Wolfram Rebuttal Testimony at 8.

⁹¹ Futral Direct Testimony at 40.

⁹² Futral Direct Testimony at 38

conversion that interrupted the normal bad debt write-off and collection process.⁹³ The Attorney General further argued that South Kentucky RECC's Uncollectibles Expense should be reduced to a more normal recurring level based on South Kentucky RECC's identification of a more normal level of expense from September 2023 through December 2024.⁹⁴

In rebuttal, South Kentucky RECC agreed with the Attorney General's proposed adjustment.⁹⁵

The Commission finds that the Attorney General's proposed adjustment of \$32,679 is reasonable and should be accepted because it reflects a more normal recurring level of expense based on South Kentucky RECC's identification of a more normal level of expense.

Non-Recurring Charges

Meter Test Charge

South Kentucky RECC requested a change under Section III - Meters, 3.10 Meter Tests (b). South Kentucky RECC proposed to increase the cost of meter testing from \$17.55 to \$150.⁹⁶ South Kentucky RECC argued that the increase reflected the current cost.

The Commission found in Case No. 2020-00141 that calculation of non-recurring charges related to services performed during normal business hours should exclude labor

⁹³ Futral Direct Testimony at 38.

⁹⁴ Futral Direct Testimony at 39.

⁹⁵ Futral Rebuttal Testimony at 9.

⁹⁶ Application, Exhibit 4.

costs, as those are recovered as part of the salaries and wages expense.⁹⁷ However, if a service is performed after business hours, labor costs are typically allowed to be reflected in the associated non-recurring charge, as those are not generally recovered in the wages and salaries expense. Therefore, the Commission removed labor costs from the proposed Meter Test Charge of \$150, as there was no evidence of record that such testing would need to be performed outside of regular business hours and finds that the Meter Test Charge should be \$47.76.

South Kentucky RECC proposed a \$1,854 revenue requirement reduction to reflect a proposed increase to Meter Test Charge from \$17.55 to \$150.⁹⁸ The Attorney General did not raise an objection to this adjustment.

The Commission finds that South Kentucky RECC's proposed reduction should be denied and that labor costs associated with the Meter Test Charge should be removed in the amount recovered by the utility. The removal of labor costs results in an increase of \$1,431 to the revenue requirement to account for lost revenue. Therefore, the Commission finds that the revenue requirement should be increased by \$1,431 to account for unrealized revenue.

Trip Charge

South Kentucky RECC proposed a revision to Rules and Regulations Section II-Service Procedures, 2.50 Special Charges. South Kentucky RECC proposed to change the charge from \$17.55 to \$140 for each trip made during regular working hours and from

⁹⁷ Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020), Order at 19-20.

⁹⁸ Application, Exhibit 10, Attachment JW-2, Reference Schedule 1.17; Application, Exhibit 5 at 26E; and Wolfram Direct Testimony at 13.

\$345 to \$387 for each trip made after or before regular working hours. South Kentucky RECC argued that the fee was updated to reflect current costs during regular working hours and outside regular working hours.⁹⁹

For the reasons discussed in the Meter Test Charge section above, the Commission finds that the Trip Charge for trips within regular business hours should be reduced from the proposed \$140 to \$47.76 in order to exclude labor costs from its calculation. However, the Commission finds that the proposed Trip Charge for trips made outside of regular business hours of \$387 is reasonable as it accurately reflects the costs to perform the task.

South Kentucky RECC proposed a \$173,062 reduction to the revenue requirement to account for South Kentucky RECC's proposed increase to the Trip Charge.¹⁰⁰ South Kentucky RECC proposed increasing the Trip Charge: Regular Hours from \$17.55 to \$140 and the Trip Charge: After Hours from \$345 to \$387.¹⁰¹ The Attorney General did not raise an objection to this adjustment.

The Commission finds that South Kentucky RECC's proposed adjustment should be denied and that labor costs associated with the Trip Charge: Regular Hours should be removed. The removal of labor costs results in an increase to the revenue requirement by \$136,497 to account for unrealized revenue. Therefore, the Commission finds that the revenue requirement should be increased by \$136,497 to account for the lost revenue.

⁹⁹ Application, Newton Direct Testimony at 12.

¹⁰⁰ Application, Exhibit 10, Attachment JW-2, Reference Schedule 1.18 and Wolfram District Testimony at 14.

¹⁰¹ Application, Exhibit 5 at 26E.

Remote Reconnect – 60 Days or less

South Kentucky RECC proposed a change under Rules and Regulations Section II- Service Procedures, 2.60 Connect, Reconnect, Collection and Meter Reading Charges. South Kentucky RECC proposed to add a \$20 fee for remote reconnection in 60 days or less. The provision would state, “In lieu of (b) and (c) above, where a remote meter with remote connect, disconnect and meter reading capability is installed and service is either active or inactive for less than 60 days, a charge of \$20 shall apply.”¹⁰²

The Commission finds the remote Reconnection Charge up to 60 days of \$20 to be reasonable as it does not include labor costs performed during regular business hours.

South Kentucky RECC proposed a \$14,000 reduction to the revenue requirement to account for the revenue change stemming from South Kentucky RECC’s proposed new charge of Remote Reconnect – 60 days or less. South Kentucky proposed to set the Remote Reconnect – 60 days or less fee at \$20. The Attorney General did not raise any objection to this adjustment.

The Commission finds that South Kentucky RECC’s proposed adjustment is reasonable and should be accepted.

Remote Reconnect – 61 through 365 days

South Kentucky RECC proposed to add a \$300 fee for remote reconnection for members whose service is terminated for a period more than 60 days but less than 12 months. This provision would state, “[t]o reconnect service for the same member where service has been disconnected for more than 60 days and less than 12 months, a charge

¹⁰² Application, Exhibit 4.

of \$300 shall apply.”¹⁰³ South Kentucky RECC stated that these new fees would recover costs for reconnection service after disconnection where a remote meter was installed and a trip to the location was not necessary.¹⁰⁴ South Kentucky RECC further stated that the new fees were a result of technological advancement provided through advanced metering infrastructure and were proposed to ensure proper recovery.¹⁰⁵

The Commission finds the proposed remote Reconnection Charge from 61 days through 365 days to be unreasonable. In the evidentiary hearing, South Kentucky RECC witness John Wolfram stated that the 61 days through 365 days Reconnection Charge was calculated by using 10 months because 10 months is the “most it can be” using the cost-based residential rate of \$30.¹⁰⁶ As a result, the proposed charge would over-charge any customer wishing to reconnect after 2 months, but before the full year mark, and therefore, would not be fair, just nor reasonable to recover true missed fixed costs from those customers.

South Kentucky RECC proposed a \$6,000 reduction to the revenue requirement to account for the proposed new charge of Remote Reconnect – 61 through 365 days.¹⁰⁷ South Kentucky RECC proposed to a Remote Reconnect – 61 through 365 days fee of \$300.¹⁰⁸ The Attorney General did not raise any objection to this adjustment.

¹⁰³ Application, Exhibit 4.

¹⁰⁴ Application, Exhibit 8, Newton Direct Testimony at 8.

¹⁰⁵ Application, Exhibit 8, Newton Direct Testimony at 8.

¹⁰⁶ Hearing Video Transcript (HVT) of the July 17, 2025 Hearing, John Wolfram at 01:53:55-01:54:43.

¹⁰⁷ Application, Exhibit 10, Attachment JW-2, Reference Schedule 1.20 and Wolfram District Testimony at 14.

¹⁰⁸ Application, Exhibit 5 at 26E.

The Commission finds that South Kentucky RECC's proposed adjustment should be denied. This results in a \$6,000 increase to the revenue requirement due to lost revenue. Therefore, the Commission finds that the revenue requirement should be increased by \$6,000 to account for unrealized revenue.

Returned Check Charge

Under Section II – Service Procedures, 2.70 Return Payments Charge, South Kentucky RECC proposed to increase the Return Payment Charge from \$6 to \$10. South Kentucky RECC argued that the increase reflected the average cost to South Kentucky RECC.¹⁰⁹ The Commission finds that the proposed Returned Check Charge is unreasonable as it includes labor costs that are performed during regular business hours. Therefore, the Commission finds a Returned Check Charge of \$7 to be fair, just and reasonable, as reflected in Appendix B to this Order, and should be approved.

South Kentucky RECC proposed a \$6,384 reduction in the revenue requirement to account for the revenue change stemming from South Kentucky RECC's proposed revisions to the Returned Check Charge.¹¹⁰ The Attorney General did not raise an objection to this adjustment.

The Commission finds that South Kentucky RECC's proposed adjustment should be denied and that labor costs associated with the Return Check Charge should be removed. This results in an increase to the revenue requirement by \$5,040 to account for unrealized revenue. The Commission finds that the revenue requirement should be increased by \$5,040 to account for unrealized revenue.

¹⁰⁹ South Kentucky RECC's Response to Staff's Second Request, Item 24, at 2.

¹¹⁰ Application, Exhibit 10, Attachment JW-2, Reference Schedule 1.21 and Wolfram District Testimony at 14.

Right of Way (ROW) Expense

South Kentucky RECC, in its application or testimony, did not propose any adjustments to the ROW Expense.

The Attorney General proposed a \$2,170,683 reduction to South Kentucky RECC's test year ROW Expense.¹¹¹ The Attorney General argued that the ROW expense should be based on South Kentucky RECC's actual average cost of \$8,448 per circuit mile in the test year and an assumption that South Kentucky RECC would actually trim 836.26 miles per year in order to maintain a six-year cycle for its total 5,017.54 circuit miles to be trimmed.¹¹²

In rebuttal, South Kentucky RECC stated that the Attorney General's argument is incorrect and unreasonable because the assertions regarding South Kentucky RECC's program are based on historical performance which was restricted due to financial constraints.¹¹³ South Kentucky RECC also argued that the Attorney General's assumption that bid rates for trimming in the future will be equivalent to average cost per mile expensed from 2023 and 2024; that assumption did not take into account inflation or an overall increase in system overhead miles to be trimmed.¹¹⁴

The Commission agrees with the Attorney General's assertion that the ROW Expense captured in the test year is too high but disagrees with the Attorney General's proposed adjustment. An adjustment to the ROW expense should be made to reflect the

¹¹¹ Futral Direct Testimony at 23.

¹¹² Futral Direct Testimony at 22-23.

¹¹³ Bessinger Rebuttal Testimony at 7.

¹¹⁴ Bessinger Rebuttal Testimony at 7.

target miles to be completed at the test year cost per mile. Therefore, the Commission finds it reasonable to reduce the ROW expense and revenue requirement by \$757,667 for a five-year trimming cycle.

South Kentucky Rural Electric Cooperative Corporation
Actual Circuit Miles Trimmed & 5 Yr Average Trim Amounts

Year	Circuit Miles Trimmed	Trimming Expenses	Expense Per Mile
2019	426.94	\$2,563,778	\$6,005
2020	469.48	\$2,424,225	\$5,164
2021	576.78	\$3,166,838	\$5,491
2022	304.90	\$2,970,780	\$9,743
2023	903.68	\$6,043,354	\$6,688
2024	787.66	\$7,304,060	\$9,273
TY	1,093.19	\$9,235,766	\$8,448
Total Miles to be Trimmed			5,017.54
5-Year Trim Cycle			5
Average Miles to be Trimmed Per Year			1,003.51
TY Trimming Expense Per Mile			\$8,448
5-Year Average Expenses Based on TY Expense per Mile			\$8,478,099
Reduction in TY Expenses			(\$757,667)

Non-Operating Margins

South Kentucky RECC requested a 1.85 OTIER which resulted in a TIER of 2.29 in its application.¹¹⁵ In the calculation of South Kentucky RECC's 2.29 TIER, it included Non-Operating Margins – Interest of \$1,695,485 and Non-Operating Margins – Other of \$280,191.¹¹⁶ Included in the \$1,695,485 Non-Operating Margins – Interest is

¹¹⁵ Application at 2 and Exhibit 10, Attachment JW-2 at 1.

¹¹⁶ Application, Exhibit 10, Attachment JW-2 at 1.

approximately \$880,000 of Rural Utilities Service (RUS) Cushion of Credit.¹¹⁷ In the hearing, South Kentucky RECC stated that the \$880,000 of RUS Cushion of Credit non-operating income will be gone by the end of 2026 first quarter.¹¹⁸

The Commission finds that an adjustment to remove \$880,000 of RUS Cushion of Credit from the calculation of South Kentucky RECC's TIER is reasonable given the testimony that the RUS Cushion of Credit will be at zero by the end 2026 first quarter.

In South Kentucky RECC's application it included an independent auditor report which contained a statement of cash flows.¹¹⁹ In the statement of cashflows for the test year 2023, South Kentucky RECC recorded a gain on disposition of electric plant in service of \$275,743.¹²⁰ South Kentucky RECC stated that this \$275,743 sale of property is not expected to recur.¹²¹

The Commission finds that an adjustment to remove the \$275,743 from a gain on disposition of electric plant in service from the calculation of the TIER is appropriate given that it is not expected to recur.

TIER/OTIER

South Kentucky RECC requested a 1.85 OTIER.¹²² South Kentucky RECC stated that it has not met the RUS required minimum for OTIER in 2023 and 2024, and that

¹¹⁷ HVT of the July 17, 2025 Hearing at 10:26:10.

¹¹⁸ HVT of the July 17, 2025 Hearing at 10:27:20.

¹¹⁹ Application, Exhibit 17 at 7.

¹²⁰ Application, Exhibit 17 at 7.

¹²¹ HVT of the July 17, 2025 Hearing at 10:25:50.

¹²² Application at 2.

without drastically cutting the ROW maintenance program, South Kentucky RECC would not make the OTIER requirement of 1.10.¹²³

The Attorney General argued that the Commission should reject South Kentucky RECC's request and recommended that base rates be set using a TIER calculation.¹²⁴ The Attorney General argued that the OTIER standard completely ignored the RUS Cushion of Credit interest income and other amounts used in the TIER calculation.¹²⁵ The Attorney General argued that South Kentucky RECC's calculation to set base rates on a 1.85 OTIER is equivalent to a TIER of 2.29 is unreasonably high and would place an unwarranted burden on South Kentucky RECC member ratepayers.¹²⁶ The Attorney General recommended a TIER of 1.85 be used to determine South Kentucky RECC's revenue requirement.¹²⁷ The Attorney General argued that this TIER was sufficient for South Kentucky RECC to meet its minimum debt ratio obligations, as well as provide a more reasonable additional cushion to guard against unforeseen revenue reductions and non-rider expense increases in any given calendar year period.¹²⁸ Additionally, the Attorney General stated that authorization of an excessive TIER is a fundamental disincentive for distribution cooperatives to control discretionary expenses.¹²⁹

¹²³ Application, Exhibit 8, Direct Testimony of Kevin Newton (Newton Direct Testimony) at 7.

¹²⁴ Futral Direct Testimony at 11-12.

¹²⁵ Futral Direct Testimony at 12.

¹²⁶ Futral Direct Testimony at 12.

¹²⁷ Futral Direct Testimony at 14.

¹²⁸ Futral Direct Testimony at 12-13.

¹²⁹ Futral Direct Testimony at 13.

In rebuttal, South Kentucky RECC argued that it is required to meet all debt covenants, not some of them.¹³⁰ South Kentucky RECC stated that OTIER is the debt covenant that it is most often below the required minimum and that is why it was selected as the basis for South Kentucky RECC's application, not for the purpose of excluding other revenue sources.¹³¹ Additionally, South Kentucky RECC disagreed with the Attorney General's recommendation of a 1.85 TIER. South Kentucky RECC argued that the use of a 2.00 TIER was proven to be insufficient for establishing margins for South Kentucky RECC in its current circumstances.¹³² South Kentucky RECC argued that a TIER of 1.85 is not much higher than the 1.25 minimum established in South Kentucky RECC's loan covenants.¹³³ South Kentucky RECC also argued that setting a TIER at 1.85 could impair cash working capital and cash flow for unforeseen expenses, and lastly, that the Attorney General's recommendation is arbitrary.¹³⁴

The Commission finds that South Kentucky RECC proposed request of an OTIER of 1.85 is reasonable which results in a TIER of 2.08. If the Commission were to authorize an OTIER lower than 1.85, considering South Kentucky RECC's balance sheet, South Kentucky 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 South Kentucky RECC from meeting its debt service

¹³⁰ Bessinger Rebuttal Testimony at 3.

¹³¹ Bessinger Rebuttal Testimony at 3.

¹³² Wolfram Rebuttal Testimony at 4.

¹³³ Wolfram Rebuttal Testimony at 5.

¹³⁴ Wolfram Rebuttal Testimony at 5-6.

obligation requirements, which could negatively affect its ability to obtain debt and could require South Kentucky RECC to file more frequent rate cases at customers' expense.

REVENUE REQUIREMENT SUMMARY

South Kentucky RECC has debt covenant credit metrics requiring a TIER of 1.25 and OTIER of 1.10. Based on the findings above, the Commission authorizes a rate increase of \$9,765,701 which represents a 6.57 percent increase. The pro forma adjustments and revenue requirement calculation are found in Appendix A. The effects of the adjustments on South Kentucky RECC's net income result in utility operating margins of \$4,545,943 based upon total operating revenues of \$135,991,040, a total cost of electric service of \$131,445,097. The resulting credit metrics are a 2.08 TIER and a 1.85 OTIER which will provide South Kentucky RECC with a reasonable margin to meet its debt covenants. Below is a table showing South Kentucky RECC's proposed adjustments, the Attorney General's proposed adjustments, and the Commission's adjustments to the revenue increase requested in the application:

Description	South Kentucky RECC	Attorney General	Commission
Original Requested Revenue Requirement Increase	\$ 10,768,623	\$ 10,768,623	\$ 10,768,623
<i>Proposed Adjustments</i>			
O & M Expenses			
Year End Customer Normalization	206,631		202,855
Depreciation Expense Normalization	(19,512)	(19,512)	(19,512)
FEMA	(234,788)	(234,788)	(234,788)
401K	7,091	7,091	7,091
Wages	2,242		2,242
Interest on Long Term Debt Correction	(150,073)	(150,073)	(150,073)
Health Insurance Test Year Correction	(9,256)	(9,256)	(9,256)
Amortizations of Deferred Costs	(89,921)	(89,921)	(89,921)
SCADA	(19,880)	(19,880)	(19,880)
Uncollectible	(32,679)	(32,679)	(32,679)
BLS Health Contribution Rate		(129,144)	
ROW Maintenance Normalize Over Six Year		(2,170,683)	(757,667)
Payroll Tax Reduction		(31,361)	(31,361)
401K to Reflect One-Year Eligibility		(168,260)	
Rate Case Expense			(18,941)
Non-Recurring Charges			
Meter Test Charge			1,431
Trip Charge			136,497
Remote Reconnect 61-365			6,000
Returned Check			5,040
TIER Reduction to 1.85		(2,397,062)	
Adjusted Revenue Requirement Increase	\$ 10,428,478	\$ 5,323,095	\$ 9,765,701
Percentage Increase	7.01%	3.58%	6.57%

RATE DESIGN

Cost of Service Study (COSS)

South Kentucky 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 East Kentucky Power Cooperative Corporation (EKPC) wholesale tariff, in order to

determine the cost to serve each customer class.¹³⁵ With the 12 CP methodology, South Kentucky RECC explained that demand related costs are allocated based on 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 based on the average number of customers served in each rate class during the test year.¹³⁶

For the distribution, the zero-intercept method was used to determine the customer components of overhead conductor, underground conductor, and line transformers.¹³⁷ The COSS determined South Kentucky RECC's overall rate of return (ROR) on rate base and used it to determine the relative rates of return that South Kentucky RECC is earning from each rate class. The proposed Revenue Allocation and the revised Revenue Allocation in South Kentucky RECC's rebuttal for each rate class with the application and revised current and proposed ROR is illustrated below.¹³⁸

Rate Class	Revenue Increase Application	Revenue Increase Rebuttal	Return on Rate Base Application	Return on Rate Base After Revisions Application	Return on Rate Base Revised	Return on Rate Base After Revisions Revised
Residential, Farm and Non-Farm Service	\$10,766,999	\$10,425,364	(4.57%)	1.52%	(4.72%)	1.17%
Small Commercial Rate	\$0	\$0	16.87%	16.87%	17.19%	17.19%
Large Power Rate	\$0	\$0	24.59%	24.59%	19.78%	19.78%

¹³⁵ Application, Exhibit 10, Wolfram Direct Testimony at 18.

¹³⁶ Application, Exhibit 10, Wolfram Direct Testimony at 18-19.

¹³⁷ Application, Exhibit 10, Wolfram Direct Testimony at 17.

¹³⁸ Application, Exhibit 10, Wolfram Direct Testimony, Exhibit JW-3 at 1 and JW-9 at 1. SouthKY-COS-2024-Rebuttal.xlsx, "Summary of Returns" Tab. See also, SouthKY-Pres-Prop-Rates-2024-Rebuttal.xlsx, "Summary" Tab.

Large Power Rate – 1	\$0	\$0	45.96%	45.96%	11.08%	11.08%
Large Power Rate – 2	\$0	\$0	10.52%	10.52%	9.12%	9.12%
Large Power Rate – 3	\$0	\$0	9.95%	9.95%	8.61%	8.61%
Optional Power Service	\$0	\$0	32.55%	32.55%	32.08%	32.08%
All Electric School Schedule	\$0	\$0	9.53%	9.53%	8.82%	8.82%
Lighting	\$0	\$0	17.41%	17.41%	17.52%	17.52%
Total	\$10,766,999	\$10,425,364	0.20%	5.03%	(0.20%)	4.47%

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

Revenue Allocation and Rate Design

South Kentucky RECC proposed to increase its Residential, Farm and Non-Farm Service, consumer charge from \$17.50 to \$30.75, with an increase to the energy charge from \$0.09816 per kWh to \$0.09869 per kWh.¹³⁹ South Kentucky RECC stated that the purpose of the proposed rates was to move South Kentucky RECC's rate structures in the direction of cost-based rates.¹⁴⁰ Due to Residential, Farm and Non-Farm Service being the only class with a negative margin and rate of return less than that of the overall system, the overall proposed revenue increase was limited to allocation to that class.¹⁴¹

¹³⁹ Application, Exhibit 10, Wolfram Direct Testimony at 24.

¹⁴⁰ Application, Exhibit 10, Wolfram Direct Testimony at 24.

¹⁴¹ Application, Exhibit 10, Wolfram Direct Testimony at 22.

Additionally, in South Kentucky RECC's rebuttal testimony, the utility stated that, because the fundamentals behind the COSS do not change, and because the proposed \$30.75 consumer charge is still supported by the updated findings, that only the proposed energy charge would be revised to \$0.09825 per kWh.¹⁴²

The Attorney General stated that the proposed increase in Residential, Farm and Non-Farm Service, consumer charge of 75.7 percent will diminish the customers' ability to control and reduce their monthly utility bills.¹⁴³ Additionally, the Attorney General stated that the rates may cause a financial burden to some customers.¹⁴⁴ The Attorney General encouraged the Commission to continue to rely upon the principle of gradualism when awarding any increase to the monthly consumer charge as well as the energy charge.¹⁴⁵

South Kentucky RECC stated that allowing it to recover more of its fixed costs through the consumer charge will decrease the unpredictability that a distribution cooperative faces in its revenue stream.¹⁴⁶ Additionally, South Kentucky RECC stated that both its and the Attorney General's witness at the hearing testified that customers would still have the incentive to conserve energy to lower their monthly bills even if the increase is placed more on the fixed charge.¹⁴⁷

The Commission gives substantial weight to the evidence that indicates the Residential, Farm and Non-Farm Service, rate class is earning less of a return relative to

¹⁴² Wolfram Rebuttal Testimony at 11.

¹⁴³ Attorney General's Post Hearing Brief (filed Aug. 8, 2025) at 6.

¹⁴⁴ Attorney General's Post Hearing Brief at 6-7.

¹⁴⁵ Attorney General's Post Hearing Brief at 8.

¹⁴⁶ South Kentucky RECC's Response Brief (filed Aug. 15, 2025) at unnumbered PDF page 4.

¹⁴⁷ South Kentucky RECC's Response Brief at unnumbered PDF page 4.

its cost to serve. The Commission acknowledges that Residential, Farm and Non-Farm Service, rate class, which contributes to 65.87 percent¹⁴⁸ of South Kentucky RECC's revenue, is the only customer class that carries a negative ROR. The Commission notes that all other customer classes currently hold a ROR higher than that of the total system, which indicates that the Residential, Farm, and Non-Farm class is the only rate class being subsidized.¹⁴⁹ The Commission recognizes that it is unusual for an entire revenue increase to fall onto a residential class; however, South Kentucky RECC's COSS shows that its Residential, Farm, and Non-Farm Service, rate class is the only class underperforming, before and after the proposed rate revisions.¹⁵⁰ Additionally, the Commission acknowledges the Attorney General's arguments expressing concerns regarding South Kentucky RECC's 75.7 percent increase to Residential, Farm and Non-Farm Service consumer charge. The Commission must weigh these factors and strike a balance between the customers' financial interest and the utility's ability to provide adequate, reliable service.

Based upon the Commission-approved revenue increase of \$9,765,701 the Commission finds South Kentucky RECC's proposed allocation between the fixed and volumetric charges unreasonable. The Commission has consistently found it reasonable to raise the consumer charge in utility rate cases to better reflect the fixed costs inherent in providing utility service.¹⁵¹ However, the Commission has found it reasonable to

¹⁴⁸ Application, Exhibit 10, Wolfram Direct Testimony, Exhibit JW-3 at 1.

¹⁴⁹ Application, Exhibit 10, Wolfram Direct Testimony, Exhibit JW-3 at 1.

¹⁵⁰ Application, Exhibit 10, Wolfram Direct Testimony at 22, lines 19-21 and Exhibit JW-3 at 1.

¹⁵¹ Case No. 2021-00407, June 30, 2022 Order at 24; Case No. 2024-00085, Feb. 28, 2024 Order at 47; Case No. 2024-00324, *Electronic Application for an Alternative Rate Adjustment for Jackson Energy Cooperative Pursuant to 807 KAR 5:078* (Ky. PSC Mar. 11, 2025), Order at 14-15.

embrace the principle of gradualism in ratemaking, which mitigates the financial impact of rate increases on customers while providing reasonable rates. The Commission finds that South Kentucky RECC's Residential, Farm and Non-Farm Service, consumer charge should increase from \$17.50 to \$23.30, which is approximately a 33.1 percent increase. By increasing the consumer facility charge \$5.80, it allows South Kentucky RECC to recover an additional \$4,531,967 in fixed revenue,¹⁵² which is 54.27 percent of the approved Residential, Farm and Non-Farm Service rate revenue increase. The Residential, Farm and Non-Farm Service, energy charge should increase from \$0.09816 per kWh to \$0.10490 per kWh, which reflects the remaining 45.73 percent of Residential, Farm and Non-Farm Service revenue increase. The balance of 54.27 percent fixed revenue and 45.73 percent variable revenue allows South Kentucky RECC to recover additional portions of its fixed costs through fixed revenue, while mitigating potential financial burden on Residential, Farm and Non-Farm Service, rate class and preserving those customer's ability to control their monthly electric bills through reduced usage.

Utilizing the Commission's revenue increase of \$9,765,701, for a Residential, Farm and Non-Farm Service, customer with an average monthly usage of 993 kWh,¹⁵³ the average bill will increase by \$12.50, or 10.8 percent, from \$114.97 to \$127.47 per month. The changes in the rate design reflect a \$9,766,191, or 9.8 percent revenue increase for the Residential, Farm and Non-Farm Service class. The Commission notes, that due to rate rounding, the increase in Residential, Farm and Non-Farm Service, revenue does not equal the overall target revenue increase. The Commission finds that the Residential,

¹⁵² Fixed revenue is determined by the following equation: (Billing Units x Commission Approved Consumer charge) - (Billing Units x Current Consumer charge).

¹⁵³ Application, Exhibit 10, Wolfram Direct Testimony at 25.

Farm, and Non-Farm Service rates set forth herein to be fair, just and reasonable, and are found in Appendix B to this Order.

TARIFF CHANGES

South Kentucky RECC proposed several changes to its tariffs as it relates to its non-recurring charges. The Attorney General did not comment on the proposed tariff changes.

DEPRECIATION STUDY

South Kentucky RECC requested approval of the new depreciation study and allow the implementation of depreciation rates contained in the study.¹⁵⁴ In Case No. 2021-00407, the Commission ordered South Kentucky RECC to perform a depreciation study in its next general rate adjustment.¹⁵⁵ South Kentucky RECC stated that the depreciation study utilized accepted methodologies to determine proposed reasonable depreciation rates for each major South Kentucky RECC plant account.¹⁵⁶

The Commission finds that the proposed depreciation study is reasonable and should be accepted.

IT IS THEREFORE ORDERED that:

1. The rates proposed by South Kentucky RECC are denied.
2. The rates and charges, as set forth in Appendix B to this Order, are approved as fair, just and reasonable for South Kentucky RECC, and these rates and charges are approved for service rendered on and after the date of the entry of this Order.

¹⁵⁴ Application at 9.

¹⁵⁵ Case No. 2021-00407, June 30, 2022 Order at 30.


¹⁵⁶ Bessinger Direct Testimony at 9.

3. South Kentucky RECC's depreciation study is accepted.
4. South Kentucky RECC's proposed tariff changes are denied, in part and granted, in part.
5. Within 20 days of the date 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 herein and reflecting its effect date and that it was authorized by this Order.
6. South Kentucky RECC's August 19, 2025 notice of intent to place rates into effect is hereby stricken from the administrative record of this case and replaced with a document indicating same.
7. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION


Chairman


Commissioner


Commissioner

ATTEST:


Executive Director





APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00402 DATED DEC 2 2025

Description	Actual Test Year	Pro Forma Adjustments	Pro Forma Test Yr	At Proposed Rates
<u>Operating Revenues</u>				
Total Sales of Electric Energy	148,689,284	(26,752,411)	121,936,873	131,702,574
Other Electric Revenue	4,236,134	52,332	4,288,467	4,288,467
Total Operating Revenue	152,925,418	(26,700,078)	126,225,340	135,991,040
<u>Operating Expenses:</u>				
Purchased Power	109,041,205	(26,250,733)	82,790,472	82,790,472
Distribution Operations	4,535,671		4,535,671	4,535,671
Distribution Maintenance	16,904,789	3,733	16,908,522	16,908,522
Customer Accounts	4,330,008		4,330,008	4,330,008
Customer Service	602,572		602,572	602,572
Sales Expense	32,568		32,568	32,568
A&G	5,676,616	(479,123)	5,197,494	5,197,494
Total O&M Expense	141,123,429	(26,726,122)	114,397,307	114,397,307
Depreciation	10,543,106	791,391	11,334,496	11,334,496
Taxes - Other	116,630		116,630	116,630
Interest on LTD	5,370,206	(14,966)	5,355,240	5,355,240
Interest - Other	212,265		212,265	212,265
Other Deductions	29,159		29,159	29,159
Total Cost of Electric Service	157,394,794	(25,949,697)	131,445,097	131,445,097
Utility Operating Margins	(4,469,376)	(750,382)	(5,219,758)	4,545,943
Non-Operating Margins - Interest	1,695,485	(880,000)	815,485	815,485
Income(Loss) from Equity Investment:	-		-	-
Non-Operating Margins - Other	280,191	(275,743)	4,448	4,448
G&T Capital Credits	2,018,096	(2,018,096)	-	-
Other Capital Credits	427,397		427,397	427,397
Net Margins	(48,207)	(3,924,221)	(3,972,428)	5,793,273
Cash Receipts from Lenders	6,011	-	6,011	6,011
OTIER	0.17		0.03	1.85
TIER	0.99		0.26	2.08
TIER excluding GTCC	0.62		0.26	2.08
Target OTIER	1.85		1.85	1.85
Margins at Target OTIER	8,979,834		5,793,273	5,793,273
Revenue Requirement	166,374,628		137,238,371	137,238,371
Revenue Deficiency (Excess)	9,028,040		9,765,701	-
Increase \$			9,765,701	9,765,701
Increase %				6.57%

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00402 DATED DEC 2 2025

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

Rates

Residential, Farm and Non-Farm Service

Consumer Charge	\$23.30 per Month
Energy Charge	\$0.10490 per kWh per Month

Non-Recurring Charges

2.50 Special Charges

Trip Charge (within business hours)	\$47.76 per trip
Trip Charge (outside business hours)	\$387.00 per trip

2.60 Connect, Reconnect, Collection and Meter Reading Charges

Remote Reconnection, Disconnection, and Reading Capability Charge	\$20.00 per reconnect
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2.70 Return Payment Charge

Return Payment Charge	\$7.00 per returned payment
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3.10 Meter Tests

Meter Testing Charge	\$47.76 per test in excess of once in 12 months
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