

**COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

<b>ELECTRONIC APPLICATION OF MEADE</b>	)	
<b>COUNTY RURAL ELECTRIC COOPERATIVE</b>	)	<b>Case No. 2020-00131</b>
<b>CORPORATION FOR AN ADJUSTMENT OF RATES</b>	)	

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**ATTORNEY GENERAL’S COMMENT**

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Meade County R.E.C.C (“Meade”) is a not-for-profit, member-owned rural electric cooperative corporation with its headquarters in Brandenburg, Kentucky. Meade provides electric service to approximately 30,000 customers in all or portions of Breckinridge, Grayson, Hancock, Hardin, Meade, and Ohio Counties. Meade is one of three owner-members of Big Rivers Electric Corporation, which is its wholesale electricity provider. Serving a retail load of 125 MW, Meade owns and maintains 3,243 miles of distribution lines connecting 18 substations. Meade last sought a rate increase in Case No. 2013-00033, with the rates approved in that proceeding going into effect on October 29, 2013. Based on a cost of service study (“COSS”) conducted by John Wolfram of Catalyst Consulting, LLC, Meade now proposes to increase its monthly residential customer charge from \$17.16 to \$21.09.<sup>1</sup> This increase would result in increased gross

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<sup>1</sup> See Testimony of Martin Littrel, Exhibit 7, at page 9.

revenues of 2.6% for Meade, while the average residential customer would see his or her overall monthly bill increase by 3.52% or around \$4.22.<sup>2</sup>

**I. The Commission should carefully review Meade’s proposal to ensure it conforms to Commission precedent.**

The Commission has made clear that it expects “the compensation and benefits to be justified with compensation and benefits studies or other similar evidence.”<sup>3</sup> The Commission should therefore adjust any operating expenses, specifically including salaries and benefits if necessary, to conform to current Commission precedent regarding the reasonableness of those expenses.

First, the Commission should review compensation for Meade’s staff to ensure that it is reasonable. CEO salary and benefits rose 9.9% over from 2017 to 2019.<sup>4</sup> Ratepayers should not fund wage and salary increases at unjustified levels. Large salary increases are more likely to be unjustified during this time of unprecedented pandemic, when government agencies and businesses aggressively seek to identify all potential savings. The Attorney General recommends that the Commission caution Meade to keep such increases within the bounds of reason absent exceptional, well-justified circumstances.

Second, with respect to healthcare and retirement costs, the Attorney General requests that the Commission fully evaluate the benefits offered by Meade to ensure that

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<sup>2</sup> See Testimony of Martin Littrel, Exhibit 7, at page 8 and See Testimony of Anna Swanson, Exhibit 8, at page 11.

<sup>3</sup> See Final Order in *Application of Grayson Rural Electric Cooperative Corporation for an Adjustment of Rates*, 2018-00272 at page 11.

<sup>4</sup> See Exhibit 26 to Application.

they result in a level of compensation similar to other comparable Cooperatives. The same evaluation should be employed regarding Meade's payments related to vision coverage for employees, spousal life insurance, and long-term disability insurance.

The Attorney General requests that the Commission review the aforementioned Pro Forma Adjustments to Operating Expenses for potential savings.

**II. The residential class should not bear the entire increase proposed by Meade.**

Meade seeks approval to increase its annual revenues by \$1,404,525.00, or 2.60%. It proposes that the entire increase should be borne by the residential class, which amounts to an increase to the rates of residential class of 3.52%. Meade's expert, John Wolfram, concludes that the residential rate-payers should bear the entire increase in rates based on the COSS he prepared.

Wolfram claims that the residential class does not pay its fair share of the cost basis for the services it receives. Thus, he concludes that the facility charges for this class should be increased. However, the majority of rate classes fail to pay their fair share of the cost-based fixed charges.<sup>5</sup> It is inequitable to meet revenue deficiencies by increasing the fixed charge for some customer classes, while leaving others that are also deficient unchanged. The proposed increase in the customer charge for residential customers should be mitigated by increasing the customer charges for the other classes whose current facility charge is less than that determined by the COSS.

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<sup>5</sup> Compare present rates at Application Exhibit 4 to Cost-based rates at Exhibit JW-3, page 2.

The Attorney General requests that the burden of the proposed increase in rates be shared appropriately across the rate classes.

**III. Meade’s proposal to increase its facility charge by 22.9% is unreasonable given current financial hardships faced by many and does not comport with the Commission’s precedent of gradualism.**

With respect to the residential class, Meade proposes to increase its facility charge from \$17.16 per month to \$21.09 per month. The Attorney General requests that the Commission fully evaluate this proposed change to ensure that the extent of this shifting of costs from the energy charge to the customer charge aligns Meade with other similarly situated cooperatives.

The Commission has stated, “for an electric cooperative that is strictly a distribution utility, there is merit in providing a means to guard against revenue erosion that often occurs due to the decrease in sales volumes that accompanies poor regional economics and changes in weather patterns. The Commission consistently has been in favor of raising the customer charge in utility rate cases to reflect the fixed costs inherent in providing utility service.”<sup>6</sup> However, a 22.9% increase to the facility charge is a large increase that will result in higher unavoidable costs for customers who are least financially able to absorb that increase at this time when many families are experiencing unprecedented economic hardship. This large increase to the residential customer charge is a change that the Commission should evaluate critically.

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<sup>6</sup> Final Order, Case No. 2018-00272, *Application of Grayson Rural Electric Cooperative Corporation for an Adjustment of Rates*, at 31 (Ky. Commission March 28, 2019), quoting Final Order, Case No. 2017-00374, *Application of Big Sandy Rural Electric Cooperative Corporation for a General Adjustment of Existing Rates*, at 11- 12 (Ky. Commission April 26, 2018).

The Commission relies on the principal of gradualism in ratemaking, which mitigates the financial impact of rate increases on customers and Kentucky families. Mr. Wolfram has agreed that gradualism is prudent, and the facility charge should not immediately be raised to the cost-based rate. In the event that the Commission decides to approve any or all of Meade's proposals, the Attorney General requests that the Commission continue to follow the precedent of gradualism, giving appropriate consideration to affordability for ratepayers. In so doing, the arbitrary increase of the customer charge proposed by Meade could just as easily be some smaller percentage which appropriately takes into account the current hardships that many families are experiencing.

The Attorney General requests that the Commission consider all aspects and potential consequences of the proposed increase to the customer charge when reaching a decision on this issue.

**IV. The Commission should consider delaying implementation of any approved rate increase given financial hardships wrought by the COVID-19 pandemic.**

Meade acknowledges that the COVID-19 pandemic made the decision about whether to request a rate increase a difficult one.<sup>7</sup> While the Attorney General concurs with Meade that companies should collect the appropriate rates to ensure the maintenance of reliable service to customers, delay of the implementation of these rates would not jeopardize Meade's financial standing. The Attorney General does not request

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<sup>7</sup> See Testimony of Martin Littrel, Exhibit 7, at page 14.

that the application be denied altogether. To do so would simply compound costs associated with the filing of rate cases, which are passed on to customers; that is unnecessary. However, a delay in the implementation of any increased rates might allow for the financial situation of ratepayers to improve in the intervening period. To the extent such a delay is not precluded by KRS 278.190, the Attorney General requests such a delay be ordered.

### CONCLUSION

The Attorney General requests that the Commission consider the foregoing when deciding whether Meade's rate increase should be approved.

Respectfully submitted,

DANIEL J. CAMERON  
ATTORNEY GENERAL



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*Certificate of Service and Filing*

Pursuant to the Commission's Order dated March 17, 2020 in Case No. 2020-00085, and in accord with all other applicable law, Counsel certifies that an electronic copy of the forgoing was served on the following on July 29, 2020. A physical copy of the filing will be submitted to the Commission once the State of Emergency has ceased.

Thomas Brite  
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this 29th day of July, 2020

A handwritten signature in blue ink, appearing to read "Thomas Brite", with a horizontal line extending to the right.

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Assistant Attorney General