COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE ELECTRONIC APPLICATION OF EAST	)	
KENTUCKY POWER COOPERATIVE, INC.	)	
FOR A GENERAL ADJUSTMENT OF RATES,	)	Case No. 2021-00103
APPROVAL OF DEPRECIATION STUDY,	)	
AMORTIZATION OF CERTAIN REGULATORY	)	
ASSETS AND OTHER GENERAL RELIEF	)	

SUPPLEMENTAL TESTIMONY OF ANN BRIDGES

EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

ON BEHALF OF EAST KENTUCKY POWER COOPERATIVE, INC.

Filed: July 29, 2021

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, TITLE AND BUSINESS ADDRESS.

A. My name is Ann Bridges. I am the Executive Vice President and Chief Financial Officer ("CFO") for East Kentucky Power Cooperative, Inc. ("EKPC"). My business address is 4775 Lexington Road, Winchester, Kentucky 40391.

Q. DID YOU PREVIOUSLY PROVIDE TESTIMONY IN THIS CASE?

A. Yes. I provided direct testimony that was filed as part of EKPC's Application.

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

A. I am supporting the reasonableness of the Stipulation, Settlement Agreement and Recommendation that EKPC and the intervenors in this case entered into on July 29, 2021 ("Stipulation").

Q. WHO ARE THE INTERVENORS?

A. Three parties were allowed to intervene in this docket – the Attorney General through his Office of Rate Intervention ("AG"), Nucor Steel Gallatin ("Nucor") and AppHarvest Morehead Farm, LLC ("AppHarvest").

II. THE STIPULATION

Q. CAN YOU DESCRIBE THE PROCESS BY WHICH THE STIPULATION CAME INTO BEING?

A. Counsel for EKPC and the intervenors first met on July 16, 2021 to discuss whether a settlement agreement might be possible in that case. Nucor made an offer of settlement, upon which AppHarvest commented. By custom, the AG typically does not offer comments on proposed settlements until something is proposed by the applicant. Following that first meeting, EKPC's management analyzed the settlement proposal and consulted with both the Executive Committee of EKPC's Board of Directors, its full Board and the Chief Executive Officers of EKPC's Owner-Members. Those discussions led to the scheduling of a second settlement conference on July 23, 2021. In addition to counsel for each party being present, I attended on behalf of EKPC, Cathy Waddell attended on behalf of Nucor and Brittney Koenig and Ariel Miller attended on behalf of Commission Staff.

At this settlement conference, EKPC presented a formal counteroffer to the intervenors. After some discussion and further compromise, the parties arrived at a settlement that they believed represented a fair, just and reasonable outcome for each of the issues presented in EKPC's Application.

Q. WHAT HAPPENED ONCE AN AGREEMENT WAS REACHED?

A. Due to the comprehensiveness of the settlement agreement, it took a few days for a draft Stipulation to be prepared and circulated to the parties. In addition, the settlement required EKPC to have another iteration of its cost of service study prepared. Only after that was completed was EKPC able to share the information needed by Mr. John Wolfram to prepare an updated set of rates and revenue allocations for the sixteen pass-through cases filed by EKPC's Owner-Members. That work is ongoing, but I would expect supplemental information to be filed shortly in each pass-through case. Meanwhile, EKPC called a special Board meeting for July 29, 2021 and received formal approval to enter into the Stipulation.

Q. IS THE STIPULATION SELF-EFFECTUATING?

A. No. The Stipulation recognizes that the Commission is not bound by its terms and must review it and approve it before it can be implemented. However, the

Stipulation affirms that each Party believes it represents "a reasonable resolution of all issues in this proceeding" and requests the Commission to approve it "in its entirety." The Stipulation is a comprehensive settlement and recommendation from our perspective.

Q. WHAT ARE SOME OF THE KEY TERMS OF THE STIPULATION?

A. The Stipulation provides for a $38.343 million increase in EKPC's base rates. This is lower than the $48.984 million increase that EKPC believed it could have justified in a fully litigated case. In getting to this agreed upon revenue increase, the Parties agreed to three adjustments.

Q. PLEASE DESCRIBE EACH OF THESE ADJUSTMENTS.

A. The first adjustment relates to EKPC's generation maintenance expense. The Parties agreed that, for settlement purposes, it would be reasonable to normalize EKPC's generation maintenance expense over a five-year period from 2015-2019, which corresponds to the end of the test year. By normalizing the generation maintenance expense, EKPC arrived at a downward adjustment in revenue of $6.592 million. The adjustment is also related to a tracking mechanism that I will describe later.

Second, EKPC agreed to a general plant reserve surplus adjustment. EKPC originally proposed to return this surplus to members over a ten year amortization period, which closely approximates the period in which the reserve accumulated. However, the parties agreed in the Stipulation to reduce the amortization period to five years, which results in a $1.914 reduction in EKPC's revenue requirement.

Third, EKPC agreed to reduce interest expense on its environmental surcharge construction work in progress ("CWIP") balances that are currently being recovered for the Spurlock Station's Coal Combustion Residuals and Effluent Limitation Guideline compliance projects. Mr. Lane Kollen had proposed a higher adjustment based upon a higher interest rate, however, as EKPC is funding the projects out of its Credit Facility, using the lower interest rate associated with the Credit Facility made more sense. Thus, the Parties compromised by keeping Mr. Kollen's proposed adjustment but tying it to the actual interest rate for the projects' debt. This results in a further decrease to EKPC's revenue requirement of $2.135 million.

Taken together, these adjustments reduce the revenue requirement from the $48.984 million that EKPC stated in its application it thought it could justify to the $38.343 million set forth in the Stipulation. It also consistent with EKPC's request to base all adjustments upon the $48.984 million figure set forth in the Application.

Q. WILL THESE ADJUSTMENTS BE THE ONLY ITEMS THAT EFFECT EKPC'S FUTURE REVENUE?

A. No. The Stipulation will also have an impact upon EKPC's environmental surcharge revenues. Due to a lower Times Interest Earned Ratio ("TIER"), and the change in interest expense applied to CWIP described above, EKPC's environmental surcharge revenues will decrease by $7.1 million annually. There is nothing to be done specifically to make that happen. It will just be the natural result of the cumulative effects of the Stipulation being accepted. Under the Stipulation, these changes will be reflected in the Environmental Surcharge monthly filing for the Expense Month of October 2021, which will be filed with the Commission on or before November 19, 2021.

Q. HOW DOES THE STIPULATION ADDRESS EKPC'S TIER?

A. EKPC will be allowed to keep its authorized TIER of 1.50 under the Stipulation.

Q. WHY IS THIS IMPORTANT?

A. Maintaining the 1.50 TIER is important as it gives EKPC a better chance of actually achieving a TIER that is sufficient to satisfy our debt covenants. Since its last rate case, EKPC has never actually achieved its authorized TIER. If the authorized TIER were to be lowered, the chance of falling into default on a credit agreement increases due to the smaller margin for error between the debt covenants and the ability to actually achieve the requisite TIER. To put it another way, a reduction in TIER would make it more likely that EKPC would have to defer reliability projects and other investments in order to assure that it could achieve the required TIER. That way of doing business is exactly what got EKPC into the financial difficulty it faced when the Commission ordered the management audit a decade ago. EKPC has made tremendous gains in governance, financial discipline and reliability since then. A lower TIER would likely erode some of those gains over time.

Maintaining the 1.50 TIER also provides a bit of insulation to EKPC in the event of an abnormal weather year. We have recently seen some years where winter has been especially cold – such as when we experienced the Polar Vortex – but there have also been years when the winter has been unusually warm. Given that EKPC has a high concentration of residential members throughout our system, we have a bit more exposure to weather than other utilities might. A 1.50 TIER gives us some assurance that weather will be less of a factor in our ability to maintain the necessary credit metrics.

The TIER ratio is very important to credit ratings agencies. In order to minimize interest expense, it is important to maintain EKPC's current credit ratings so that our cost of debt will remain low. The credit rating agencies will view a preservation of the status quo as a positive sign for EKPC, particularly in light of the fact that that it has been over a decade since EKPC's last base rate increase.

I would also mention that we are in a period of very low interest rates. EKPC has been able to retire its highest interest rate debt through the Cushion of Credit program. However, that program has ceased to be a source of revenue for EKPC and when interest rates begin to rise – as they inevitably will at some point in the future – the cost of debt will also increase. With EKPC's base rates being reset during a period of relatively low interest rates, the higher TIER also helps insulate EKPC against rising debt costs in the future.

Q. IS THERE A CHANCE THAT EKPC WOULD ACHIEVE MARGINS IN EXCESS OF 1.50 TIER IN A GIVEN YEAR?

A. While it is possible, I regard it as unlikely. Even if it were to happen, EKPC has agreed to a revenue mechanism to cap effectively its margins at a level of 1.40 TIER. This will prevent any "over-earnings" situation from being detrimental to our Owner-Members and their end-use retail members. The relationship of the revenue mechanism in the Stipulation – which I can discuss in a minute – to the 1.50 TIER is critical. The 1.50 TIER gives us confidence that we will have the resources we need to continue improving our system and remaining financially healthy while the revenue mechanism will assure that members receive the benefits of any excess margins.

Q. PLEASE DESCRIBE THE EARNINGS MECHANISM.

A. EKPC has agreed to a mechanism by which EKPC will return any excess margins to its Owner-Members for contemporaneous pass-through to ratepayers in the form of a bill credit in the event that EKPC achieves per book margins in excess of 1.40 TIER in any calendar year. The bill credit will be allocated based upon the percentage of each rate class's total revenue for the most recent calendar year. EKPC will make an annual filing with the Commission, on or before April 30th of each year, that includes a calculation of margins and TIER for the prior year and whether any surcredit is necessary. Under the Stipulation, this mechanism will remain in place until such time as EKPC's base rates are next adjusted.

Q. WILL THE EARNINGS MECHANISM REPLACE THE PAYMENT OF CAPITAL CREDITS?

A. No. EKPC will still have the ability to pay capital credits to its Owner-Members on top of any bill credits issued in accordance with the earnings mechanism. EKPC has only recently had the financial ability to pay capital credits, however, each Owner-Member has discretion on whether capital credits it receives from EKPC are retained or used to retire its own retail members' capital credits. Because the financial situation and policies for each Owner-Member are unique, the earnings mechanism was the intervenors' preferred mechanism for assuring that retail members benefit from margins in excess of 1.40 TIER if they occur. EKPC agreed that this was a reasonable proposal, but this will not prevent EKPC from continuing to retire capital credits in future years if its Board determined to do so.

Q. UNDER THE STIPULATION, WILL EKPC MAINTAIN A 1.50 TIER FOR THE ENVIRONMENTAL SURCHARGE AS WELL?

A. No. The Stipulation calls for EKPC's TIER to be reduced to 1.475 for the environmental surcharge. This reflects the Commission's recent precedent that has awarded a lower return on costs recovered through a surcharge mechanism.

Q. HOW DOES THE STIPULATION PROPOSE TO ALLOCATE THE REVENUE INCREASE?

A. As a result of negotiation and compromise, the Stipulation includes a proposal to increase Rate B, Rate C, Rate G, Large Special Contract and Steam by 2.60% each. Rate E will see rates rise by 5.2%, while the Pumping Stations rate will see no increase. These percentages and the dollar increase are set forth in more detail in paragraph two of the Stipulation.

Q. DOES THIS MEAN THAT EACH RETAIL CUSTOMER WILL SEE A CORRESPONDING RATE INCREASE OF EITHER 2.6% OR 5.2% IN THEIR MONTHLY BILL?

A. No. The wholesale rates charged by EKPC to its Owner-Members for power purchases are just one component of a retail rate. Accordingly, the actual rate increase experienced by residential members should be less than the percentage rate of the wholesale increase. We believe that actual average residential monthly bill increase will range from 2.76% to 3.94%, with an average increase of 3.4% across all sixteen of EKPC's owner-members. It is my understanding that Mr. Wolfram will be supplementing the records of each of the pass-through cases soon with updated retail rate impacts.

Q. ARE THERE OTHER TERMS OF THE STIPULATION THAT YOU WOULD LIKE TO MENTION?

A. Yes. As you will recall, there is a revenue adjustment that relates to the normalization of generation maintenance expense. As part of that adjustment the Stipulation creates a mechanism by which EKPC will track its actual generation maintenance expenses and compare them to the normalized figure of $81.067 million in annual generation maintenance expense. In years where the actual expense is greater than the normalized number, EKPC will record a regulatory asset for 75% of the difference. However, in years where the actual expense is less than the normalized number, EKPC will record a regulatory liability for 75% of the difference.

Q. IS IT ENVISIONED THAT EKPC WILL NEED COMMISSION APPROVAL TO DO THIS EACH YEAR?

A. No. Since the calculation is straight-forward and will repeat each year, it would seem to be a waste of the Commission's time and resources to have an annual docket on this. Instead, the Stipulation requires EKPC to make the calculation and report to the Commission whether the prior year resulted in a regulatory asset or a regulatory liability. EKPC will also include in the filing supporting information and a calculation as to whether the cumulative net amount is a regulatory asset or liability. In EKPC's next base rate, the net accumulated balance will be amortized and either collected from, or returned to, EKPC's Owner-Members. EKPC will make this annual filing with the Commission on or before April 30th of each year.

Q. WHAT ELSE IS INCLUDED IN THE STIPULATION?

A. There are a few provisions that relate to AppHarvest in particular. For instance, AppHarvest has expressed an interest in participating in PJM's demand response program and developing an AgriTech tariff. EKPC agrees to work in good faith with AppHarvest on both of these issues. With regard to the demand response question, EKPC and AppHarvest will work to develop a program that complies with both federal and state law whereby AppHarvest can participate in PJM's demand response program with EKPC acting as its Curtailment Service Provider. EKPC would charge an administrative fee to offset its costs for this service. Moreover, any final agreement would require Commission review and approval.

With regard to the AgriTech tariff, we will continue our prior discussion with AppHarvest to develop a tariff that is more closely aligned with the unique needs of a large, industrial scale indoor agricultural technology enterprise. This will include reviewing whether it makes sense to include a lighting component in the AgriTech tariff that is similar to the commercial and industrial lighting tariff that was recently terminated by EKPC. It is our belief that a more targeted lighting program may make more sense than the general, any-industry commercial and industrial tariff that was previously in place.

Q. IS THERE ANYTHING ELSE IN THE STIPULATION THAT YOU WOULD LIKE TO POINT OUT?

A. The Stipulation includes a list of several items that the Parties all agree should be approved. These items have been previously described in detail in direct testimony and responses to information requests, so I will not go through them in detail here, but they can generally be described as: approval of EKPC's depreciation study; the amortization of four regulatory assets that were included in EKPC's revenue requirements and pro forma adjustments; relief from, and termination of, several reporting obligations which now appear to either be obsolete or have become unnecessary; approval of the proposed textual changes to various tariffs; and recovery of rate case expense.

III. CONCLUSION

Q. DO YOU BELIEVE THE STIPULATION REPRESENTS A FAIR COMPROMISE AND REASONABLE OUTCOME IN THIS CASE?

A. Yes. The Stipulation is the product of a considerable amount of discussion and compromise by all of the Parties involved. It will allow EKPC to move forward and build on its recent track record of success. At the same time, it includes important protections for EKPC's owner-members to assure that any excess margins are returned expeditiously. Other provisions will add an element of predictability to EKPC's financial future, affirm the Commission's support for EKPC and its progress and help pave the way for a continued emphasis on safety and reliability. Both the revenue and rate design aspects of the Stipulation are the product of compromise. As a whole, the Stipulation in my opinion is a fair, just and reasonable outcome and should be approved by the Commission without any modification.

Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?

A. Yes.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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ELECTRONIC APPLICATION OF EAST KENTUCKY POWER COOPERATIVE, INC. FOR A GENERAL ADJUSTMENT OF RATES, APPROVAL OF DEPRECIATION STUDY, AMORTIZATION OF CERTAIN REGULATORY ASSETS, AND OTHER GENERAL RELIEF	))))))	CASE NO. 2021-00103

VERIFICATION OF ANN F. BRIDGES

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF CLARK)

Ann F. Bridges, being duly sworn, states that she has supervised the preparation of her Supplemental Testimony in the above-referenced case and that the matters and things set forth therein are true and accurate to the best of her knowledge, information and belief, formed after reasonable inquiry.

Ann F Bridges
Ann F. Bridges

The foregoing Verification was signed, acknowledged and sworn to before me this 29th day of July 2021, by Ann F. Bridges.

Gwyn M Willoughby
Notary Commission No.: 590567
Commission expiration: 11/30/2021

GWYN M. WILLOUGHBY
Notary Public
Kentucky – State at Large
My Commission Expires Nov 30, 2021