COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF JACKSON	)	
PURCHASE ENERGY CORPORATION FOR	)	**CASE NO.**
GENERAL ADJUSTMENT OF RATES	)	**2021-00358**
AND OTHER GENERAL RELIEF	)	

JACKSON PURCHASE ENERGY CORPORATION'S BRIEF

Comes now Jackson Purchase Energy Corporation ("Jackson Purchase" or "Cooperative"), by counsel, pursuant to the February 25, 2022 Order of the Kentucky Public Service Commission ("Commission") setting forth a post-hearing procedural schedule in the above-styled docket, and does hereby tender its Brief in support of the Application for general adjustment of rates ("Application") filed October 15, 2021, and addressing other matters raised during the hearing held before the Commission on February 24, 2022, respectfully stating as follows:

I. INTRODUCTION

This case presents Jackson Purchase's first full rate case request in over 13 years. It is necessitated by substantial increases in general operating expenses coupled with a continued decline in energy sales. Thanks in part to aggressive cost control measures, diligent management and board oversight, and favorable federal policies including the Rural Utilities Service's ("RUS") Cushion of Credit program, Jackson Purchase's retail base rates have only increased by a combined amount of less than $4.700 million over the past 13 years. However, the combination of increased expenses and loss of sales has resulted in a degradation of Jackson Purchase's financial condition and currently jeopardizes its ability to maintain loan covenants with its lenders, specifically RUS. In order to prevent a further untenable financial situation, the Cooperative's Board of Directors, in conjunction with its management, determined that a general adjustment of retail rates was necessary in order to account for increased costs of conducting day-to-day activities in virtually all sectors of its business, most especially in the area of right-of-way management. Jackson Purchase's request seeks approval to increase its annual revenues by $7.302 million or 10.5%, to achieve a Times Interest Earned Ratio ("TIER") of 2.00, which equates to an Operating Times Interest Earned Ratio ("OTIER") of 1.90. Jackson Purchase bases its proposed rates on a twelve-month historical test period ending December 31, 2019. Included in this approval request is an increase of the monthly residential customer charge from $16.40 to $21.25. These rates are based on the results of a comprehensive cost of service study ("COSS") performed by Mr. John Wolfram, Principal, Catalyst Consulting LLC. They are appropriately adjusted for known and measurable changes consistent with Commission regulations and precedent.

Through extensive discovery and a full day hearing each of Jackson Purchase's assertions and claims have been explored, discussed and stringently tested by Commission Staff ("Staff") and the Kentucky Attorney General's Office of Rate Intervention ("AG"). As is normal in any contested full rate case, there are divergent positions and more than a few disagreements over the merits and amounts of several pro forma adjustments. However, in the end Jackson Purchase believes that its COSS and the methodologies employed for calculation of its requested pro forma adjustments are accurate and reliable and should provide the basis for a Commission decision granting most, if not all, of its request in this case.

II. BACKGROUND

On October 15, 2021 Jackson Purchase tendered its Application with the Commission, pursuant to KRS 278.180, KRS 278.190 and other applicable law, for an adjustment of its retail rates. The Application was accepted for filing on October 18, 2021. A Motion for Intervention was filed by the AG which was granted by Commission Order on September 16, 2021. Jackson Purchase responded to four separate sets of data requests from Staff and two sets of data requests from the AG, as well as post-hearing data requests. Jackson Purchase supported its case with the testimony of three witnesses, Mr. Greg Grissom and Mr. Jeff Williams, the Cooperative's President/Chief Executive Officer and Chief Financial Officer/Vice President of Finance and Accounting, respectively, and Mr. John Wolfram, Principal, Catalyst Consulting LLC, Louisville, Kentucky. The AG tendered the testimony of one witness, Mr. Lane Kollen, Principal, J. Kennedy Associates, Roswell, Georgia. At the hearing of the case on February 24, 2022, these four witnesses were cross-examined by counsel for the parties, Staff and the Commission. Following the hearing Jackson Purchase provided responses to 14 post-hearing data requests on March 8, 2022. Upon the filing of simultaneous principal and responsive briefs by the Jackson Purchase and the AG the case will stand submitted for Commission adjudication on March 23, 2022.

III. ARGUMENT

A. Several Factors Contribute to Jackson Purchase's Need for the Rate Adjustment

Since Jackson Purchase's last full rate case[1] in 2007 was concluded it has experienced significant increased expenses in many areas of its business. In fact, even since its 2019 streamlined case[2] was concluded additional expense increases have occurred, most notably in the

[1] *See* Case No. 2007-00116, *General Adjustment of Electric Rates of Jackson Purchase Energy Corporation*

[2] *See* Case No. 2019-00053, *The Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment of Rates Pursuant to Streamlined Procedure Pilot Program Established in Case No. 2018-00407.*

areas of right-of-way management and cost of essential materials and supplies. Through diligent management and board efforts these increases have been somewhat mitigated by aggressive actions to both pay down and refinance existing debt thereby reducing interest expense, holding the line on overall employee expense by maintaining a lean workforce, obtaining and using the federal Payroll Protection Program to cover labor expense during the worst of the 2020 COVID-19 pandemic, putting a program in place to extend the life of rolling fleet from ten to twelve years, and continued implementation of AMI PLC technology which is estimated to save the Cooperative $1.900 million in manual meter reading expense annually.[3] However, despite these valiant efforts stagnant customer and load growth have resulted in mediocre retail energy sales and have resulted in financial results that are well below what is needed to keep pace with costs and insure an acceptable level of financial integrity. In addition, Jackson Purchase's existing rate structure does not align with its cost of providing service resulting in revenue erosion caused by having too great a portion of its fixed cost recovery embedded in the variable (energy) charge.[4]

As further justification for the requested rate increase Jackson Purchase points to the challenging state of the economy in its service territory which is best reflected in its declining year-over-year energy sales. Between 2005 and 2020, a period of 15 years, Jackson Purchase's energy sales have declined in nine of those years, and in years of successive declines the situation is actually worse than it appears because of the effect of compounding, i.e., a decline in sales for a particular year that follows a year where there was also a decline.[5] When comparing the 12-year period between 2007 and 2019, representing the time between Jackson Purchase's last full rate

[3] Direct Testimony of Greg Grissom, p. 5 (October 15, 2021).

[4] Direct Testimony of John Wolfram, p. 28 (October 15, 2021).

[5] *See* Jackson Purchase's response to post-hearing data request, Item 9. Excel Spreadsheet *Attachment_Response_PHDR-9_updated_Exhibit_JRW-1.xlsx.*

case and the test year in this case, overall energy sales have declined by approximately 10%.[6] Naturally, the vast majority of Jackson Purchase's total energy sales are to the residential class. Residential customers contribute approximately 64% to the Cooperative's total annual electric revenue.[7]

It is against this very challenging backdrop that Jackson Purchase has tried to simultaneously mitigate its loss of energy sales and delay further increases to residential rates.

B. The Cost of Service Study Demonstrates that the Proposed Increase in Base Rates is Necessary to Maintain Jackson Purchase's Financial Health

Mr. Wolfram has presented numerous COSS that have been accepted by the Commission in other dockets on behalf of electric cooperatives and has sponsored expert testimony on other rate-related matters before this Commission for almost two decades. In this case he has presented a very detailed COSS which has been thoroughly explained in 28 pages of testimony and numerous supporting spreadsheets and other exhibits.[8]

The proposed revenue increase was determined by analyzing the revenue deficiency based on financial results for the test period after the application of certain pro forma adjustments which were based on known and measurable changes. The revenue deficiency was determined as the difference between (i) Jackson Purchase's net margins for the adjusted test period without reflecting a general adjustment in rates, and (ii) Jackson Purchase's net margin requirement

[6] *See id.*

[7] *See* Direct Testimony of Greg Grissom, p. 4 (October 15, 2021).

[8] Mr. Wolfram's testimony and supporting materials for the COSS are found in Application Exhibit 9. Specific reference is made to all of Mr. Wolfram's testimony and materials but because of the highly detailed nature of his work only a summary of the most important findings is discussed here.

necessary to provide a TIER of 2.00 for the test period.[9] Based on the adjusted test year, the revenue deficiency was determined to be $7.302 million, but later adjusted to $7.119 million.[10]

Mr. Wolfram's Exhibit JW-2 to his Application Exhibit 9 is the key evidence supporting Jackson Purchase's rate adjustment request in this case. The TIER, OTIER, Margins at Target TIER, and Revenue Deficiency amounts are calculated at the bottom of page one of Exhibit JW-2. Mr. Wolfram's revised Exhibit JW-2 demonstrating the revised revenue deficiency of $7.119 million was filed on rebuttal and is provided as Attachment 1 to this Brief.

Mr. Wolfram made all necessary and recognized pro forma adjustments which remove revenues and expenses addressed in other rate mechanisms, are ordinarily excluded from rates, or are non-recurring on a prospective basis, consistent with standard Commission practices.[11] Mr. Wolfram provided a total of 19 pro forma adjustments which are summarized by list and later discussed in detail in his testimony.[12]

Mr. Wolfram next prepared a detailed COSS based on the pro forma operating results for the test year.[13] Mr. Wolfram stated the COSS showed "the wide range of rates of return for the rate classes indicates that existing rates foster a relatively high degree of subsidization between the rate classes. The unbundled costs within each rate class indicate an imbalance within the current rate structure between the recovery of fixed costs and variable costs, particularly within the

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[9] *See* Direct Testimony of John Wolfram, p. 6 (October 15, 2021).

[10] *See* Rebuttal Testimony of John Wolfram, pp. 2-3 (February 17, 2022).

[11] *See* Direct Testimony of John Wolfram, p. 8 (October 15, 2021).

[12] *See id.,* pp. 8-14.

[13] *See id.,* p. 14. A detailed description of the steps employed in performing the COSS is found at pages 14-22 of Mr. Wolfram's testimony, and summarized in Exhibit JW-3 to that testimony.

residential and small commercial classes."[14] Importantly, the COSS results indicate that rates for the residential class and small commercial classes are insufficient and should be increased; and, there is clear support for a fixed monthly charge of $41.56 for the residential class.[15]

Mr. Wolfram put a finer point on the issue of the fixed monthly charge in his direct testimony:[16]

> "Since the current charge is $16.40 per month, the fixed customer charge should be increased. This is a significant issue for JPEC because the current charge is so far below cost-based rates….This means that the current rate structure places too little recovery of fixed costs in the fixed charge, which results in significant under-recovery of fixed costs, particularly when members embrace conservation or energy efficiency or otherwise reduce overall consumption. At bottom, this is a fundamental challenge facing JPEC from a cost recovery standpoint, and it is essential for JPEC's financial well-being to address this issue."

Jackson Purchase's current monthly customer charge is only $16.40 and the mismatch between this number and what the COSS shows the monthly charge should be is stark. Clearly, Jackson Purchase's current customer charge is so far below cost-based rates that a "fundamental challenge" faces the Cooperative because residential customers make up 85% of Jackson Purchase's membership, and as previously stated, contribute approximately 64% of annual electric revenue.[17]

C. There are Several Pro Forma Adjustments Essential to the Commission's Decision

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[14] *See id.,* p. 21.

[15] *See id.,* p. 21.

[16] *See id.,* pp. 21-22.

[17] *See* Direct Testimony of Greg Grissom, p. 4. (October 15, 2021) *See also* Jackson Purchase's response to Staff-DR-03-08, p. 2 of 3. At $16.40, Jackson Purchase's current customer charge is 9th lowest among the 19 electric distribution cooperatives which are subject to the Commission's jurisdiction.

As is normal in contested rate adjustment cases there are several disputed pro forma adjustments which the Commission must consider in setting Jackson Purchase's rates. Of the 19 pro forma adjustments discussed in Table 2 of Mr. Wolfram's Direct Testimony[18], the AG's rate witness, Mr. Kollen, recommended adjustments to seven of them suggesting a reduction of $3.431 million.[19] However, $2.900 million, or approximately 85%, of this reduction is subsumed in two adjustments, right-of-way maintenance and the level of TIER to which Jackson Purchase's prospective allowed revenues should be based. Summary discussion of the relative positions of the parties' witnesses on these contested pro forma adjustments is necessary so the Commission might see the reasonableness of Jackson Purchase's adjustments compared to those advocated by the AG.

1. Right-of-Way Maintenance

The largest pro forma adjustment by Jackson Purchase in this case involves right-of-way maintenance expense. It is also the most contentious with the AG recommending a 55% decrease to Jackson Purchase's request.

For several years Jackson Purchase's primary contractor performing right-of-way maintenance on its distribution system has been Townsend Tree Service ("Townsend"), a large multi-state company conducting business with many other utilities similar in size and service territory to Jackson Purchase. In December, 2017 Jackson Purchase and Townsend signed a four-year "Right-of-Way Clearing Contract" under which Townsend was to maintain the Cooperative's right-of-way.[20] The essential terms of the contract were as follows:

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[18] *See* Direct Testimony of John Wolfram, p. 8. (October 15, 2021).

[19] *See* Direct Testimony of Lane Kollen, page 4 (January 10, 2022).

[20] This contract and its attachments were provided by Jackson Purchase in its supplemental response to AG-DR-01-38.

- Townsend was to clear an average of 444.50 miles of Jackson Purchase's right-of-way each year[21]for a total contract price of $4.093 million.[22]
- The average price per mile of cleared right-of-way Townsend was to receive from Jackson Purchase was $2,299.72.[23]

Because of staff turnover in its engineering department Jackson Purchase does not have accurate records indicating how many miles of right-of-way were trimmed for the period 2010-2019.[24] However, Jackson Purchase's records show that in 2018 it paid $885,717.79, and in 2019 it paid $535,752.58, for right-of-way trimming activities.[25] At an average price of $2,299.72 per mile it is reasonable to assume that in 2018 Townsend cleared approximately 385 miles of right-of-way ($885,717.79 ÷ $2,299.79 = 385). For 2019 it is reasonable to assume that Townsend cleared approximately 232 miles of right-of-way ($535,752.58 ÷ $2,299.79 = 232). However, in the fall of 2019 Townsend informed Jackson Purchase that it was losing money and could not continue to honor the four-year Right-of-Way Clearing Contract.[26] Townsend indicated it intended to cease performance under the contract and walk away from it. At that point Jackson Purchase had a very difficult decision to make. It could sue Townsend for damages for breach of contract and embroil itself in lengthy and expensive litigation and likely lose forever a long-term and otherwise trustworthy contractor, and be saddled with the reputation among other right-of-way contractors as being litigious, thereby reducing the pool of substitute contractors. Or, it could

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[21] *See id.,* Attachment A, p. 26 of 74. At 444.50 miles per year, Townsend would have cleared all of Jackson Purchase distribution circuits during the four-year term of the contract (444.50 miles x 4 years = 1,778 miles).

[22] *See id.,* p. 18 of 74.

[23] *See id.,* Attachment B, p. 27 of 74.

[24] *See* response of Jackson Purchase to AG-DR-01-17(a).

[25] *See* response of Jackson Purchase to AG-DR-01-18(b), p. 4 of 22.

[26] *See* Direct Testimony of Jeff Williams, p. 12 (October 15, 2021); *See also* hearing testimony of Greg Grissom, Hearing Video Record (HVR) 9:21:57 (Feb. 24, 2022).

pursue a less aggressive posture and rebid its right-of-way needs for 2020 and see how things turned out. It chose the latter option and rebid its right-of-way maintenance needs for 2020.[27]

Ultimately, two bidders were chosen to perform work for 2020, The Halter Group ("Halter") and Townsend, the same company which had declined to complete the previous Right-of-Way Clearing Contract. A written contract was awarded to Halter on April 6, 2020.[28] The Halter contract was for $544,912.28, and provided that approximately 350 miles of right-of-way would be trimmed which "may be split between Contractors".[29] The Townsend contract was unwritten. Ultimately, for 2020 a total of approximately 212 miles of Jackson Purchase right-of-way was trimmed by these two contractors, with Halter trimming approximately 105 miles at a total cost of $626,674.41, or an average of $5,965.49 per mile.[30] Townsend trimmed 107.63 miles at a total cost of $578,056.00, or an average of $5,370.77 per mile.[31] The average cost per mile to Jackson Purchase of the Halter and Townsend trimming work for 2020 was $5,664.52, an increase over 2019 trimming costs of 148%.[32]

For 2021 right-of-way maintenance work Jackson Purchase issued a Request for Proposal ("RFP") in late 2020 and sent it out to more than a dozen known contractors with virtually no interest expressed.[33] However, Townsend was the exception and agreed with Jackson Purchase to enter into a 2021 right-of-way trimming contract at a price totaling $867,279.00 for three circuits

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[27] *See* Direct Testimony of Jeff Williams, p. 12 (October 15, 2021).

[28] The Halter contract is provided in Jackson Purchase's response to PSC-DR-02-21, pp. 6-16 of 26.

[29] The contract contemplates that the estimated 350 miles of right-of-way to be trimmed could be split between Halter and another contractor such as Townsend. That is what occurred although only 212 miles was trimmed.

[30] *See* Jackson Purchase's supplemental response to AG-DR-01-38, p. 57 of 74.

[31] *See id.*

[32] *See id.*

[33] *See* hearing testimony of Greg Grissom, HVR 9:27:40 (Feb. 24, 2022).

in the Jackson Purchase system, Clinton Road, Airport and Wickliffe, totaling 80.6 miles.[34] Following this RFP/Bid/Contract sequence the final per mile cost for trimming these three Jackson Purchase circuits was $10,760.28 ($867,279.00 ÷ 80.6 = $10,760.28).[35] It is very important for the Commission to understand that Townsend was the lowest bidder under the 2021 RFP at $10,760.28. Other bids were received from three right-of-way trimming contractors with two of them being more than double Townsend's bid. These three bids were $11,132.00, $21,592.95 and $26,938.73 per mile.[36]

Jackson Purchase used the 2021 trimming cost per mile as the basis for its right-of-way pro forma adjustment to test year expenses since it was based on known and measurable data provided following the RFP/Bid/Contract sequence described above. Jackson Purchase's pro forma adjustment is $3.316 million, and is calculated by multiplying 358 miles, which is the number of miles required to be trimmed annually for each of five years to complete a system-wide trimming cycle, by the 2020 bid received for 2021 trimming work of $10,760.28 per mile (358 × $10,760.28 = $3.316 million).[37]

The AG's witness, Mr. Kollen, naturally disagrees with Jackson Purchase's pro forma adjustment for right-of-way maintenance finding it to be excessive and not based on known and measurable data.[38] Essentially, Mr. Kollen believes that any pro forma adjustment for right-of-way maintenance expense should be based on what Jackson Purchase had to pay Halter and

[34] *See* Jackson Purchase's response to PSC-DR-02-21, pp. 17-26 of 26.

[35] *See* Jackson Purchase's supplemental response to AG-DR-01-38, p. 58 of 74. The chart referenced in the response states a trimming cost per mile of $12,766.38. However, this amount includes the cost of tree take-downs and when these are removed from the calculation the true cost per mile is $10,760.28.

[36] *See* Direct Testimony of Jeff Williams, Exhibit JRW-4 (October 15, 2021).

[37] *See id; See also* Direct Testimony of John Wolfram, Reference Schedule 1.18 (October 15, 2021).

[38] Mr. Kollen's testimony on this issue can be found at pages 19-27 of his Direct Testimony (January 10, 2022).

Townsend per mile for 2020, which averaged $5,665.00.[39] In fact, Mr. Kollen's testimony contained a blanket recommendation for all adjustments stating that the Commission should impose an artificial time limit on Jackson Purchase's pro forma adjustments, circumscribing them to the twelve months ending December 31, 2020. This time frame happens to coincide with the worst of the COVID-19 pandemic. He also implies that Jackson Purchase should have initiated legal action against Townsend when it walked away from its four-year contract with Jackson Purchase in 2019 and recommends that the Commission initiate a focused management audit of Jackson Purchase's right-of-way processes and procedures. In addition, he recommends that Jackson Purchase be made to utilize reserve accounting for allowed right-of-way maintenance expense and that the Cooperative also be made to provide quarterly reporting of trimming progress and the costs for same. Of most importance is Mr. Kollen's suggestion that Jackson Purchase's pro forma adjustment to test year expense for right-of-way maintenance be reduced from $3.316 million to $2.028 million, a reduction of $1.824 million, or 55%.[40]

Mr. Kollen's recommendations on the issue of right-of-way maintenance are thoroughly addressed in the rebuttal testimonies of Mr. Grissom and Mr. Wolfram.[41]

Mr. Grissom testified that a focused management audit concentrated on right-of-way maintenance would be excessive, unnecessary and an inefficient use of Commission and Company resources.[42] He reminds the Commission that large increases in right-of-way maintenance costs are prevalent among cooperatives across Kentucky and that contractors have abandoned multi-year contracts in favor of annual contracts because of the significant volatility seen in costs for

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[39] *See* Direct Testimony of Lane Kollen, p. 26 (January 10, 2022).

[40] See id., p. 27.

[41] *See* Rebuttal Testimony of Greg Grissom (February 17, 2022), and of John Wolfram (February 17, 2022).

[42] *See id.* Mr. Grissom's testimony on this subject is found at pp. 3-4 of his rebuttal testimony.

labor, fuel and equipment. He explained that after soliciting and receiving bids from other contractors, including Townsend, it was confirmed that Townsend was still providing a reasonable value to Jackson Purchase and its members even under the new pricing structure. Following re-bidding Townsend has continued to be the lowest bidder and has made good progress in the number of circuit miles trimmed. Jackson Purchase certainly recognizes the importance of the issue and addresses it almost continuously. A management audit focused on this issue is unnecessary and would not generate any suggestions or recommendations beyond what Jackson Purchase is already doing to address the problem. For the same reasons, Mr. Kollen's recommendation that Jackson Purchase should be made to file periodic right-of-way maintenance progress reports is unnecessary.

Mr. Grissom also addresses the notion espoused by Mr. Kollen that the Commission should reject Jackson Purchase's proposed pro forma adjustment for right-of-way maintenance expense because it is insufficiently supported.[43] Mr. Grissom correctly points out that the 2018 right-of-way contract contained an incredibly low rate per mile and the subsequent market true-ups appear artificially excessive. The sole basis for the pro forma adjustment recommended by Jackson Purchase and contained in Exhibit JRW-4 are actual bids which the Cooperative received in 2020 for 2021 right-of-way trimming, not estimates or projections. As discussed previously, the lowest bid was for $10,760 per circuit mile. Additional bids in 2021 for 2022 averaged $10,995 per mile for 366 total miles. All of the support and documentation for the 2021 bids are contained in the case record as discussed earlier in this Brief. It is convenient for Mr. Kollen to suggest that Jackson Purchase's 2019 bids for 2020 be used to form the basis for calculation of the pro forma adjustment

[43] *See id.*, p. 4.

since they are approximately 50% less than the 2020 bids for 2021 trimming were. Simply stated, Mr. Kollen's recommendation on this issue is illogical and arbitrary.

Finally, in his rebuttal testimony, Mr. Wolfram addressed Mr. Kollen's recommendation that Jackson Purchase should utilize reserve accounting for right-of-way maintenance activities.[44] Mr. Wolfram summarized Mr. Kollen's recommendation as "a solution looking for a problem."[45] Mr. Wolfram has extensive experience in assisting Kentucky's electric distribution cooperatives in all sorts of rate and service matters and is unaware of any distribution cooperatives that employ reserve accounting for right-of-way maintenance costs due to its unconventional processes.

That Jackson Purchase, or any distribution cooperative for that matter, finds itself in the position of being required to request a $3.316 million pro forma adjustment is unfortunate and certainly not something that the Cooperative embraces. However, the mere size of the adjustment is symptomatic of what is happening throughout the utility industry, and Jackson Purchase is certainly not immune to its effects. Jackson Purchase was very careful to base the adjustment on known and measurable information. There can be no more reliable information for the cost of a specialized service such as right-of-way maintenance than an arm's length process where an RFP was issued and publicized to multiple contractors, bids were received and a contract awarded to the lowest bidder. This all occurred in late 2020 for the 2021 right-of-way trimming year. The AG's assertion that the Commission should somehow not look beyond the cost per circuit mile for 2020 is illogical and unreasonable, not only because it imposes a completely artificial adjustment cut-off period, but also because it disregards the current environment of unprecedented year-over-year right-of-way expense increases. Just between 2020 and 2021 Jackson Purchase's per mile

[44] *See* Rebuttal Testimony of John Wolfram, pp. 16-17 (February 17, 2022).

[45] *See id.,* p. 17.

right-of-way maintenance costs increased from $5,665.00 in 2020 to $10,760.00 in 2021, an increase of 90%. It is convenient for the AG to assert that Jackson Purchase's 2020 right-of-way expense should be used as the basis for the pro forma adjustment in this case since it reduces the Cooperative's ask by $1.824 million; however, that disregards reality, and if accepted would extend Jackson Purchase's system right-of-way trimming cycle from five years to nine or ten years. This would place Jackson Purchase in the impossible position of having to decide whether to risk system reliability because it has insufficient revenues to cover expenses, or return to the Commission for additional rate relief in one or two years. Unfortunately, with current gasoline and diesel prices at levels approaching $5.00 per gallon, this situation is likely to get worse before it gets better. Jackson Purchase acknowledges that in the past three years right-of-way maintenance issues have been unsettled. However, those issues began at a time when Jackson Purchase's management situation was itself unsettled and changing. As described in his hearing testimony, Mr. Grissom, has 'taken the bull by the horns' and reformed oversight and execution of the right-of-way maintenance process.[46] However, as much as he might like to do so, he cannot control the substantial annual cost increases seen throughout the industry. For these reasons the Commission is respectfully requested to fully approve Jackson Purchase's $3.316 million pro forma adjustment to test year right-of-way maintenance expense.

2. TIER LEVEL AS BASIS FOR REVENUES

For decades virtually every electric distribution cooperative appearing before the Commission seeking rate relief has based its underlying request on the ability to earn revenues sufficient to achieve a 2.00 TIER. Jackson Purchase is no different. However, inexplicably the AG's witness, Mr. Kollen, believes this is too high and the Commission should determine Jackson

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[46] *See* hearing testimony of Greg Grissom, HVR 11:49:00 through 11:54:30 (February 24, 2022).

Purchase is only entitled to earn revenues sufficient to achieve a 1.50 TIER. The effect of the AG's recommendation would be to reduce Jackson Purchase's request by $1.076 million.

The AG's recommendations on this issue are contained on pages 35-43 of Mr. Kollen's January 10, 2022 testimony. Essentially, the AG makes three claims on this issue:

(a) that Jackson Purchase failed to establish adequate support for authorization of a 2.00 TIER in its Application and "should not be allowed to present a case for the requested 2.00 TIER for the first time in its Rebuttal Testimony."[47]

(b) that Jackson Purchase's requested 2.00 TIER is excessive compared to the financial and credit metrics required by its lenders.[48]

(c) that if Jackson Purchase's request is authorized it "will result in an incentive for additional discretionary spending and will not result in equivalent increases in net margins."[49]

The positions advocated by the AG on this issue are both dangerous to the financial health of Jackson Purchase (and every other electric distribution cooperative in Kentucky), and demonstrate a fundamental lack of knowledge by Mr. Kollen about how distribution cooperatives function. Mr. Wolfram's rebuttal testimony addresses these subjects head-on.[50]

a. Support for Authorization of 2.00 TIER

Mr. Wolfram correctly states that simply because Jackson Purchase did not provide extensive direct testimony with quantitative support for a 2.00 TIER does not mean it is unsupported in the record. He points to the fact that in this case Jackson Purchase requested the continuation of the currently authorized TIER of 2.00, which the Commission recently found

[47] *See* Direct Testimony of Lane Kollen, p. 37 (January 10, 2022).

[48] *See id.*.

[49] *See id.,* p. 38.

[50] *See* Rebuttal Testimony of John Wolfram, pp. 20-29 (February 17, 2022).

reasonable in the Cooperative's 2019 'streamlined' rate case.[51] Mr. Wolfram correctly points out that the Commission made the TIER finding in that case without extensive direct testimony on the subject. Finally, Mr. Wolfram provides a long list of recent electric distribution cooperative rate cases where the Commission has accepted a TIER of 2.00 without extensive qualitative support by a rate expert.[52] Moreover, it would be a waste of resources for an electric distribution cooperative to employ a rate expert to provide the type of support for a TIER of 2.00. If that suddenly becomes a requirement Jackson Purchase and all future electric distribution cooperatives seeking rate adjustments would likely be able to justify a TIER greater than 2.00. As discussed by Mr. Wolfram the CFC Key Ratio Trend Analysis ("KRTA"), which was filed in the case record[53], shows that for 815 cooperatives in the United States, the Median TIER was 2.64 in 2019, while Jackson Purchase achieved a TIER of 1.61, ranking it 747th lowest in the entire country.[54] However, the statistics relating to cooperatives of similar size to Jackson Purchase are even more telling. The median TIER for those 67 cooperatives is 2.63, with Jackson Purchase ranking 66th, or one from the very bottom nationwide.[55] Among Kentucky cooperatives Jackson Purchase's TIER ranks dead last (22nd out of 22).[56] Yet, with a 1.53 TIER in 2019, the AG would have the Commission believe that Jackson Purchase's TIER is still too high. If the AG's position that distribution cooperatives should prospectively support their TIER requests with substantive

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[51] *See id,* p.21; Case No. 2019-00053, *Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment in Existing Rates.*(Final Order, p.13, June 20, 2019).

[52] *See id.,* p. 21.

[53] *See* Jackson Purchase's response to AG-DR-01-42 (filed under seal pursuant to a Motion for Confidential Treatment).

[54] *See* Rebuttal Testimony of John Wolfram, p. 19-20 (February 17, 2022).

[55] *See id.,* p. 20.

[56] *See id.*

analysis and testimony is sustained, the Commission should expect future cooperative TIER requests to be substantially higher than 2.00.

b. A 2.00 TIER is Excessive Compared to Required Financial and Credit Metrics

The AG asserts that because Jackson Purchase is only required to maintain a 1.25 TIER, a 1.25 DSCR, and a 1.10 OTIER to meet RUS loan requirements any TIER which the Cooperative is allowed to achieve above those values is unnecessary, and by implication, wasteful.[57] Mr. Wolfram's rebuttal testimony addressing this issue can be found at pages 22-24. He correctly points out that the AG's assertion implies a "false equivalence between the minimum financial metrics required by cooperative lenders and the authorized TIER in a rate filing before the Commission."[58] The AG has advocated this position in prior cases which the Commission has rightly rejected. There is a substantial difference between lender minimums below which there is concern about a utility's ability to repay its loans and setting meaningful target margins in a rate case intended to insure ongoing financial health. If the AG's recommendations on this issue were accepted such that the recommended TIER was benchmarked against minimum RUS loan requirements there would be virtually no cushion in the event of an unexpected decline in revenues or an unexpected increase in expenses.[59] The AG's recommendation on this issue is dangerous and much too important to Jackson Purchase's continued financial health for the Commission to accept.

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[57] *See* Direct Testimony of Lane Kollen, p. 38 (January 10, 2022).

[58] *See* Rebuttal Testimony of John Wolfram, pp. 22-23 (February 17, 2022).

[59] *See id.,* p. 23.

c. A TIER of 2.00 will Encourage Jackson Purchase to Engage in Discretionary Spending

The AG asserts that a TIER of 2.00 "will result in an incentive for additional discretionary spending and will not result in equivalent increases in net margins."[60] This assertion borders on the absurd. As stated in Mr. Wolfram's rebuttal testimony, Jackson Purchase wholly rejects the presumption that it even has an incentive for discretionary spending, much less that a TIER of 2.00 provides incentive for *additional* discretionary spending.[61] Mr. Wolfram cites to the KRTA which shows that Jackson Purchase performs better than roughly 80% of its peers when it comes to discretionary spending.[62] More to point is the fact that Jackson Purchase is regulated by this Commission and this case is the second rate adjustment request filed in a span of three years. The regulatory scrutiny to which Jackson Purchase (and all other electric distribution cooperatives in Kentucky) is subject by the Commission provides a substantial *disincentive* for 'willy-nilly' discretionary spending implied by the testimony of the AG's expert.

The AG's recommendation that a TIER of 1.50 is reasonable in this case is itself patently *unreasonable.* Approval of a maximum TIER of 1.50 would place Jackson Purchase near the bottom of the rankings of cooperatives nationwide, and result in unnecessary risk to the Cooperative's financial health.[63] It would also be a significant and dangerous departure from very recent Commission precedent as compared to TIER levels for other electric distribution cooperatives in Kentucky.[64] Finally, approving a maximum TIER of 1.50 would have a chilling effect on other distribution cooperatives' traditional rate case filings and would be seen as a

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[60] *See* Direct Testimony of Lane Kollen, p. 38 (January 10, 2022).

[61] *See* Rebuttal Testimony of John Wolfram, pp. 24-26 (February 17, 2022).

[62] *See id,* p. 25.

[63] *See id.,* p. 27.

[64] *See id.,* p. 28.

punitively low level of margins that could be authorized in future cooperative rate cases.[65] The Commission went to a great deal of trouble to establish the streamlined rate filing procedure in part to remove barriers to more frequent cooperative rate filings. Implementation of a TIER of 1.50 in this case would quickly unravel that body of work and immediately erect a barrier to future cooperative rate case filings initiated under the traditional process.[66] The Commission should quickly and decisively reject the AG's proposal on this issue and authorize a TIER of 2.00 as proposed by Jackson Purchase.

3. PAYROLL EXPENSE

The AG claims that Jackson Purchase's proposed payroll expense adjustment is excessive and recommends that the Commission use the Cooperative's actual payroll expense incurred in 2020 in lieu of the proposed adjustment.[67] The effect of the AG's recommendation is to reduce payroll expense and the base revenue requirement by $0.283 million.[68] Mr. Wolfram directly addresses this issue in his rebuttal testimony at pages 9-11.[69]

For this adjustment Jackson Purchase employed the same methodology approved by the Commission in other electric distribution cooperative rate filings. As an example, Mr. Wolfram cites to Case No. 2017-00374[70], where Big Sandy RECC used a test period that ended in mid-2016

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[65] *See id.*

[66] *See id.*

[67] *See* Direct Testimony of Lane Kollen, pp. 11-17 (January 10, 2022).

[68] *See id.,* pp. 16-17.

[69] *See* Rebuttal Testimony of John Wolfram (February 17, 2022).

[70] *See* Case No. 2017-00374, *Application of Big Sandy Rural Electric Cooperative Corporation for a General Adjustment of Existing Rates* (Ky. P.S.C., April 26, 2018).

and incorporated known and measurable payroll as of 2018. The Commission found this adjustment reasonable and accepted it without modification.[71]

The AG erroneously claims that the proposed adjustment is reflective of payroll for the 12 months ending April 2022.[72] The known and measurable wage rates and salaries that Jackson Purchase used for this adjustment were from April 2021, *before* implementation of wage increases for 2021. Therefore, the adjustment was not for payroll 12 months ending April 2022 as asserted in Mr. Kollen's testimony.[73] What Jackson Purchase did is simple, reasonable and heretofore acceptable to the Commission: it merely took a snapshot in time of actual wage rates and salaries in April 2021, before any raises to non-bargaining or bargaining employees were given, and annualized them to then calculate a pro forma adjustment to test-year payroll. Basically this sets the annual wage expense based on the actual wage rates for employees at the time the filing was prepared. This is a widely accepted methodology for calculating payroll adjustments since it relies on known and measurable payroll expense.

Instead, the AG again recommends that the Commission should use 2020 actual payroll to calculate the adjustment presumably because it is the lowest alternative at his disposal. It is no accident that 2020 actuals are the lowest alternative since it was a COVID-19 year where inconsistent work hours for employees and staff due to illness, stay-at-home orders and other virus-related mitigation measures uncharacteristically impacted the level of wages and salaries.[74] This is precisely the reason Jackson Purchase chose not to employ a 2020 test year in this case. The

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[71] *See* Rebuttal Testimony of John Wolfram, p. 10 (February 17, 2022).

[72] At the February 24, 2022 hearing, Mr. Kollen filed an Errata Sheet to his Direct Testimony, p. 12. However, his error persists.

[73] *See* Rebuttal Testimony of John Wolfram, p. 10 (February 17, 2022).

[74] *See id., p. 11.*

Commission should disregard the AG's position on this issue and approve Jackson Purchase's adjustment for wages and salaries as filed.

4. OTHER DISPUTED PRO FORMA ADJUSTMENTS

a. Headquarters Electric Expense

The AG claims that Jackson Purchase failed to remove electric expense no longer incurred for the old headquarters building and recommends that the Commission should remove $0.124 million from the proposed revenue requirement.[75] John Wolfram addresses the AG's claim in his rebuttal testimony at pages 11-13.[76]

Mr. Wolfram states that the AG's claim is completely flawed. First, the AG mistakenly claims that Jackson Purchase's purchased power expense is recovered through the FAC rider.[77] This is simply incorrect since the FAC that Jackson Purchase passes on to its retail customers is based entirely on the FAC allocated to it by Big Rivers Electric Corporation ("Big Rivers") and does not include Big Rivers' base energy charges related to Jackson Purchase's own electric usage at its headquarters campus.[78]

Second, the AG mentions only the expenses for the old headquarters and fails to consider Jackson Purchase's costs at the new headquarters. Because of the short time span which Jackson Purchase has been in the new headquarters there is not enough reliable data to make a known and measurable change to electric use at the new headquarters. At the old headquarters Jackson Purchase's power costs were based on Paducah Power's retail rates. However, it is safe to say that because Jackson Purchase's power costs are now based on the wholesale rate it pays Big Rivers,

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[75] *See* Direct Testimony of Lane Kollen, pp.17-19 (January 10, 2022).

[76] *See* Rebuttal Testimony of John Wolfram (February 17, 2022).

[77] *See* Direct Testimony of Lane Kollen, p. 19 (January 10, 2022).

[78] *See* Rebuttal Testimony of John Wolfram, p. 12 (February 17, 2022).

on a kWh-to-kWh basis, there is a purchased power cost savings. However, the new facility is larger and will likely have higher power usage, especially in the winter season, than the old smaller headquarters. There are also additional increased expenses related to property tax and insurance which Jackson Purchase is not claiming. Because of the lack of reliable historical expense data for the new headquarters at the time of case preparation prudence dictated that Jackson Purchase not propose a pro forma adjustment to account for these changes.[79] For this reason alone the AG's claim that a reduction in the revenue requirement is appropriate for this issue is unreasonable and should be rejected by the Commission.

b. Interest Expense on Long Term Debt

The AG claims that the revised interest expense on long term debt is excessive and recommends that the Commission completely exclude this adjustment amounting to a reduction of $0.043 million for the long-term debt equating to revenue requirement reduction of $0.086 million based on a TIER of 2.00[80] John Wolfram addresses the AG's claim in his rebuttal testimony at pages 17-18.[81]

Mr. Wolfram correctly points out that if the AG's reduction of $0.043 million for long-term debt is accepted, the result would be a need for short-term borrowing which resulted in $0.171 million in test year interest.[82] Including both the short-term and long-term interest adjustments fairly represents the interest needed and the resulting savings achieved by the November 2021 borrowing which is the subject of the adjustment in the first place.[83]

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[79] *See id.,* p. 12-13.

[80] *See* Direct Testimony of Lane Kollen, pp. 34-35.

[81] *See* Rebuttal Testimony of John Wolfram (February 17, 2022).

[82] *See id.,* p. 18.

[83] *See id.*

c. Depreciation Expense Related to Old Headquarters

Jackson Purchase agrees with the AG's recommendation of a $0.018 million adjustment to depreciation related to the old headquarters.

d. Revenue Requirement Calculation Clerical Errors

Jackson Purchase agrees with the AG's recommendation of a $0.018 million adjustment to its revenue requirement calculation due to inadvertent clerical errors. Appropriate corrections were provided in files uploaded to the Commission's website for this docket to account for the errors.[84]

IV. CONCLUSION

The AG's rate expert claims that in its filing Jackson Purchase applied "selective" test year adjustments resulting in a "hodgepodge" of revenue and expenses which violate the "test year conceptual framework".[85] Elsewhere, the AG recommends imposing an artificial 'statute of limitations' for all pro forma adjustments except as related to costs associated with the headquarters.[86] According to his recommendation all pro forma adjustments should be limited to the twelve months following the end the test year, or December 31, 2020.[87] These assertions and recommendations appear prominently in Mr. Kollen's testimony and are meant to confuse the issues and imply that somehow Jackson Purchase's case is nothing more than a disjointed patchwork of adjustments intended to maximize the revenue requirement. The Commission should not fall for this attempt at obfuscation. In its totality, Jackson Purchase's rate request is reasonable, supportable, and most importantly, necessary for its continued financial health.

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[84] *See id.,* p. 17.

[85] *See* Direct Testimony of Lane Kollen, pp. 5-6 (January 10, 2022).

[86] *See id.,* p. 7.

[87] *See id.*

Every one of the pro forma adjustments to test year expense advocated by Jackson Purchase in this case is based on known and measurable information, not speculative or forecasted for time periods out in the future as the AG claims. In developing this case Jackson Purchase has expended substantial energy to ensure that each adjustment would withstand Commission scrutiny under the known and measurable standard as articulated in years of precedent on the subject. Indeed, both Jackson Purchase's rate expert and Chief Financial Officer are seasoned veterans of the Commission's regulatory practices and procedures. Beginning at case inception they mutually agreed to aim to err on the side of excluding any adjustment, whether it increased or decreased the revenue requirement, that was not supported by known and measurable information. This philosophy was stringently observed by Jackson Purchase and the Commission should have every confidence that the Cooperative's adjustments are sound and fully supported by actual data.

Its management and board have pulled all the levers at their disposal to contain recurring costs to delay and mitigate the effect of this rate increase on its residential customers. As demonstrated by Mr. Wolfram's comprehensive COSS Jackson Purchase seeks to align its rates so that the customer class causing it to incur costs is the same class that pays them. While this rate adjustment will not fully and finally address this disparity, the proposed rate design change will reduce the current misallocation of cost to cost-causer.

As far as customers are concerned there is never a good time to increase rates. Jackson Purchase anticipates the Attorney General will argue that now is not the time for residential customers to pay more. Jackson Purchase has always considered its customers first whenever difficult decisions, such as whether to increase rates and by how much, are concerned. Following the 2019 streamlined case, Jackson Purchase intended to come back to the Commission in 2021 for an incremental adjustment to rates and continue the same pattern every 3-4 years. However, the exponential increases in right-of-way maintenance expense and the deleterious effects of a two-year worldwide pandemic on the macro-economy completely derailed this plan. The decision to request any rate increase, especially one of this magnitude, was difficult for Jackson Purchase's management and board of directors. However, in the end they recognized their collective fiduciary duty to Jackson Purchase's owner-members to ensure the continued financial health of the Cooperative and made the tough decision to act upon it.

In summary, Jackson Purchase's proposal in this case is both measured and necessary for its continued financial health. It is based entirely upon a comprehensive and reliable COSS employing known and measurable changes to test year expense. It is fair, just and reasonable both in terms of the revenue request and the rate design chosen to implement it. Jackson Purchase respectfully requests that the Commission enter a final rate order adopting its request in full, including recovery of rate case expense amortized over a three-year period.

This 15th day of March, 2022.

Respectfully Submitted,

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CERTIFICATE OF SERVICE

The undersigned certifies that the foregoing is a true and accurate copy of the same document filed electronically with the Commission on March 15, 2022; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; and by virtue of the Commission's July 22, 2021 Order in Case No. 2020-00085, a copy of the filing in paper medium shall not be required.

Mark David Goss

Mark David Goss

ATTACHMENT 1

REVISED EXHIBIT JW-2

JACKSON PURCHASE ENERGY CORPORATION
Statement of Operations & Revenue Requirement
For the 12 Months Ended December 31, 2019

Revised 2-17-2022

Line #	Description (1)	Actual Rates Actual Test Yr (2)	Pro Forma Adjustment (3)	Present Rates Adj Test Yr (4)	Proposed Rates Adj Test Yr (5)
1	Operating Revenues				
2	Total Sales of Electric Energy	68,120,498	(2,504,931)	65,615,567	72,734,356
3	Other Electric Revenue	1,327,204	-	1,327,204	1,327,204
4	Total Operating Revenue	69,447,702	(2,504,931)	66,942,771	74,061,560
5					
6	Operating Expenses:				
7	Purchased Power	50,688,769	(2,177,317)	48,511,452	48,511,452
8	Distribution Operations	3,308,445	31,381	3,339,826	3,339,826
9	Distribution Maintenance	2,921,678	4,099,001	7,020,679	7,020,679
10	Customer Accounts	1,273,783	27,251	1,301,034	1,301,034
11	Customer Service	40,607	3,351	43,958	43,958
12	Sales Expense	3,691	-	3,691	3,691
13	A&G	3,237,313	(251,472)	2,985,841	2,985,841
14	Total O&M Expense	61,474,286	1,732,195	63,206,481	63,206,481
15					
16	Depreciation	6,016,651	574,394	6,591,045	6,591,045
17	Taxes - Other	90,258	-	90,258	90,258
18	Interest on LTD	1,961,144	233,473	2,194,617	2,194,617
19	Interest - Other	233,334	(171,498)	61,836	61,836
20	Other Deductions	2,796	-	2,796	2,796
21					
22	Total Cost of Electric Service	69,778,469	2,368,564	72,147,033	72,147,033
23					
24	Utility Operating Margins	(330,767)	(4,873,495)	(5,204,263)	1,914,527
25					
26	Non-Operating Margins - Interest	415,932	(1,249,488)	(833,556)	(833,556)
26a	Income(Loss) from Equity Investments	-	-	-	-
27	Non-Operating Margins - Other	934,232	-	934,232	934,232
28	G&T Capital Credits	-	-	-	-
29	Other Capital Credits	179,415	-	179,415	179,415
30					
31	Net Margins	1,198,812	(6,122,984)	(4,924,172)	2,194,617
32					
33	Cash Receipts from Lenders	77,191		77,191	77,191
34	OTIER	0.87		(1.34)	1.91
35	TIER	1.61		(1.24)	2.00
36	TIER excluding GTCC	1.61		(1.24)	2.00
37					
38	Target TIER	2.00		2.00	2.00
39	Margins at Target TIER	1,961,144		2,194,617	2,194,617
40	Revenue Requirement	71,739,613		74,341,650	74,341,650
41	Revenue Deficiency	762,332		7,118,789	0
42			Target ($) >	7,118,789	
43			Increase ($) >		7,118,789
44			Increase (%) >		10.63%

JACKSON PURCHASE ENERGY CORPORATION
Summary of Pro Forma Adjustments

Reference Schedule #	Item (1)	Revenue (2)	Expense (3)	Non-Operating Income (4)	Net Margin (5)
1.01	FAC	(482,290)	(553,082)	-	70,792
1.02	ES	(4,382,552)	(4,091,656)	-	(290,896)
1.03	MRSM	2,519,821	3,311,788	-	(791,967)
1.04	Non-FAC PPA	(1,083,731)	(1,172,567)	-	88,836
1.05	Donations, Promo Ads & Dues	-	(213,387)	-	213,387
1.06	401k Contributions	-	(29,017)	-	29,017
1.07	Life Insurance	-	(7,084)	-	7,084
1.08	Rate Case Costs	-	(28,701)	-	28,701
1.09	Interest Expense	-	61,975	-	(61,975)
1.1	Interest Income	-	-	(326,174)	(326,174)
1.11	Year End Customers	378,524	328,201	-	50,323
1.12	Wages & Salaries	-	175,682	-	(175,682)
1.13	Depreciation Normalization	-	140,136	-	(140,136)
1.14	Directors Expenses	-	(7,278)	-	7,278
1.15	FEMA Credit	-	726,456	-	(726,456)
1.16	Capital Credits	-	-	(923,314)	(923,314)
1.17	New HQ	-	434,258	-	(434,258)
1.18	Right of Way	-	3,316,327	-	(3,316,327)
1.19	Normalize 2019 Rate Adj	545,297	-	-	545,297
1.20	Health Care Costs	-	(23,485)	-	23,485
1.21	reserved	-	-	-	-
1.22	reserved	-	-	-	-
1.23	reserved	-	-	-	-
	Total	(2,504,931)	2,368,564	(1,249,488)	(6,122,984)

JACKSON PURCHASE ENERGY CORPORATION
Summary of Adjustments to Test Year Balance Sheet

Line #	Description (1)	Actual Test Yr (2)	Pro Forma Adjs (3)	Pro Forma Test Yr (4)
1	***Assets and Other Debits***			
2	Total Utility Plant in Service	159,055,260	-	159,055,260
3	Construction Work in Progress	1,671,256	-	1,671,256
4	Total Utility Plant	160,726,516	-	160,726,516
5	Accum Provision for Depr and Amort	(66,201,524)	-	(66,201,524)
6	Net Utility Plant	94,524,992	-	94,524,992
7				
8	Investment in Assoc Org - Patr Capital	1,685,964	-	1,685,964
9	Investment in Assoc Org - Other Gen Fnd	-	-	-
10	Investment in Assoc Org - Non Gen Fnd	1,752,880	-	1,752,880
11	Other Investment	-	-	-
12	Total Other Prop & Investments	3,438,844	-	3,438,844
13				
14	Cash - General Funds	2,009,182	-	2,009,182
15	Cash - Construction Fund Trust	-	-	-
16	Special Deposits	-	-	-
17	Temporary Investments	-	-	-
18	Accts Receivable - Sales Energy (Net)	4,649,049	-	4,649,049
19	Accts Receivable - Other (Net)	484,840	-	484,840
20	Renewable Energy Credits	-	-	-
21	Material & Supplies - Elec & Other	2,179,335	-	2,179,335
22	Prepayments	218,013	-	218,013
23	Other Current & Accr Assets	4,215,277	-	4,215,277
24	Total Current & Accr Assets	13,755,696	-	13,755,696
25				
26	Other Regulatory Assets	-	-	-
27	Other Deferred Debits	9,825	-	9,825
28				
29	Total Assets & Other Debits	111,729,357	-	111,729,357
30				
31	***Liabilities & Other Credits***			
32	Memberships	124,495	-	124,495
33	Patronage Capital	47,279,439	-	47,279,439
34	Operating Margins - Current Year	220,328	-	220,328
35	Non-Operating Margins	695,598	-	695,598
36	Other Margins & Equities	(118,379)	-	(118,379)
37	Total Margins & Equities	48,201,481	-	48,201,481
38				
39	Long Term Debt - RUS (Net)	-	-	-
40	Long Term Debt - FFB - RUS GUAR	20,761,550	-	20,761,550
41	Long Term Debt - Other - RUS GUAR	-	-	-
42	Long Term Debt - Other (Net)	31,568,681	-	31,568,681
43	Long Term Debt - RUS -Econ Dev - Net	-	-	-
44	Payments - Unapplied	(6,522,595)	-	(6,522,595)
45	Total Long Term Debt	45,807,636	-	45,807,636
46				
47	Accum Operating Provisions	2,547,483	-	2,547,483
48				
49	Notes Payable	1,200,000	-	1,200,000
50	Accounts Payable	6,272,510	-	6,272,510
51	Consumer Deposits	2,288,656	-	2,288,656
52	Currrent Maturities - Long Term Debt	2,760,965	-	2,760,965
53	Other Current & Accr Liabilities	1,756,600	-	1,756,600
54	Total Current & Accr Liabilities	14,278,731	-	14,278,731
55				
56	Regulatory Liabilities	894,026	-	894,026
57	Other Deferred Credits	-	-	-
58	Total Liabilities & Other Credits	111,729,357	-	111,729,357

JACKSON PURCHASE ENERGY CORPORATION
Summary of Adjustments to Test Year Statement of Operations

	Reference Schedule >	1.01	1.02	1.03	1.04	1.05	1.06	1.07	1.08	1.09	1.10	1.11	1.12	1.13	1.14	1.15	1.16	1.17	1.18	1.19	1.20	
	Adjustment Item >	FAC	ES	MRSM	Non-FAC PPA	Donations, Promo Ads & Dues	401k Contributions	Life Insurance	Rate Case Costs	Interest Expense	Interest Income	Year End Customers	Wages & Salaries	Depreciation Normalization	Directors Expenses	FEMA Credit	Capital Credits	New HQ	Right of Way	Normalize 2019 Rate Adj	Health Care Costs	TOTAL
1																						
2	Operating Revenues:																					
3	Base Rates	-	-	-	-	-	-	-	-	-	-	378,524	-	-	-	-	-	-	-	545,297	-	923,821
4	Riders	(482,290)	(4,382,552)	2,519,821	(1,083,731)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,428,752)
5	Other Electric Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Total Revenues	(482,290)	(4,382,552)	2,519,821	(1,083,731)	-	-	-	-	-	-	378,524	-	-	-	-	-	-	-	545,297	-	(2,504,931)
7																						-
8	Operating Expenses:																					-
9	Purchased Power	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Base Rates	-	-	-	-	-	-	-	-	-	-	328,201	-	-	-	-	-	-	-	-	-	328,201
11	Riders	(553,082)	(4,091,656)	3,311,788	(1,172,567)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,505,518)
12	Distribution - Operations	-	-	-	-	-	(20,595)	(2,485)	-	-	-	-	54,461	-	-	-	-	-	-	-	-	31,381
13	Distribution - Maintenance	-	-	-	-	-	-	-	-	-	-	-	56,218	-	-	726,456	-	-	3,316,327	-	-	4,099,001
14	Consumer Accounts	-	-	-	-	-	(1,792)	(824)	-	-	-	-	29,866	-	-	-	-	-	-	-	-	27,251
15	Customer Service	-	-	-	-	-	-	(163)	-	-	-	-	3,514	-	-	-	-	-	-	-	-	3,351
16	Sales	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	Administrative and General	-	-	-	-	(213,387)	(6,631)	(3,612)	(28,701)	-	-	-	31,623	-	(7,278)	-	-	-	-	-	(23,485)	(251,472)
18	Total Operating Expenses	(553,082)	(4,091,656)	3,311,788	(1,172,567)	(213,387)	(29,017)	(7,084)	(28,701)	-	-	328,201	175,682	-	(7,278)	726,456	-	-	3,316,327	-	(23,485)	1,732,195
19																						-
20	Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	140,136	-	-	-	434,258	-	-	-	574,394
21	Taxes - Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
22	Interest on Long Term Debt	-	-	-	-	-	-	-	-	233,473	-	-	-	-	-	-	-	-	-	-	-	233,473
23	Interest Expense - Other	-	-	-	-	-	-	-	-	(171,498)	-	-	-	-	-	-	-	-	-	-	-	(171,498)
24	Other Deductions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
25	Total Cost of Electric Service	(553,082)	(4,091,656)	3,311,788	(1,172,567)	(213,387)	(29,017)	(7,084)	(28,701)	61,975	-	328,201	175,682	140,136	(7,278)	726,456	-	434,258	3,316,327	-	(23,485)	2,368,564
26																						-
27	Utility Operating Margins	70,792	(290,896)	(791,967)	88,836	213,387	29,017	7,084	28,701	(61,975)	-	50,323	(175,682)	(140,136)	7,278	(726,456)	-	(434,258)	(3,316,327)	545,297	23,485	(4,873,495)
28																						-
29	Non-Operating Margins - Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
30	Non-Operating Margins - Other	-	-	-	-	-	-	-	-	-	(326,174)	-	-	-	-	-	(923,314)	-	-	-	-	(1,249,488)
31	G&T Capital Credits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
32	Other Capital Credits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
33	Total Non-Operating Margins	-	-	-	-	-	-	-	-	-	(326,174)	-	-	-	-	-	(923,314)	-	-	-	-	(1,249,488)
34																						-
35	Net Margins	70,792	(290,896)	(791,967)	88,836	213,387	29,017	7,084	28,701	(61,975)	(326,174)	50,323	(175,682)	(140,136)	7,278	(726,456)	(923,314)	(434,258)	(3,316,327)	545,297	23,485	(6,122,984)

JACKSON PURCHASE ENERGY CORPORATION
For the 12 Months Ended December 31, 2019

Fuel Adjustment Clause

Line #	Year (1)	Month (2)	Revenue (3)	Expense (4)
1	2019	Jan	$ 179,711	$ 94,334
2	2019	Feb	$ 23,934	$ 16,109
3	2019	Mar	$ 64,975	$ 26,356
4	2019	Apr	$ (1,338)	$ (2,589)
5	2019	May	$ 22,601	$ 72,024
6	2019	Jun	$ 14,735	$ 6,469
7	2019	Jul	$ 89,168	$ (48,937)
8	2019	Aug	$ 12,445	$ 31,297
9	2019	Sep	$ (49,933)	$ 61,440
10	2019	Oct	$ 12,247	$ 56,802
11	2019	Nov	$ 45,113	$ 138,547
12	2019	Dec	$ 68,630	$ 101,231
13		TOTAL	$ 482,290	$ 553,082
14				
15	Test Year Amount		$ 482,290	$ 553,082
16				
17	Pro Forma Year Amount		$ -	$ -
18				
19	Adjustment		$ (482,290)	$ (553,082)

This adjustment removes the FAC revenues and expenses from the test period.

JACKSON PURCHASE ENERGY CORPORATION
For the 12 Months Ended December 31, 2019

Environmental Surcharge

Line #	Year (1)	Month (2)	Revenue (3)	Expense (4)
1	2019	Jan	$ 481,713	$ 503,425
2	2019	Feb	$ 499,323	$ 364,914
3	2019	Mar	$ 344,988	$ 308,795
4	2019	Apr	$ 287,522	$ 260,418
5	2019	May	$ 267,075	$ 289,953
6	2019	Jun	$ 420,719	$ 417,094
7	2019	Jul	$ 397,450	$ 423,087
8	2019	Aug	$ 553,748	$ 449,845
9	2019	Sep	$ 329,365	$ 304,675
10	2019	Oct	$ 321,068	$ 240,842
11	2019	Nov	$ 163,740	$ 230,205
12	2019	Dec	$ 315,842	$ 298,403
13		TOTAL	$ 4,382,552	$ 4,091,656
14				
15	Test Year Amount		$ 4,382,552	$ 4,091,656
16				
17	Pro Forma Year Amount		$ -	$ -
18				
19	Adjustment		$ (4,382,552)	$ (4,091,656)

This adjustment removes the ES revenues and expenses from the test period.

JACKSON PURCHASE ENERGY CORPORATION
For the 12 Months Ended December 31, 2019

Member Rate Stability Mechanism

Line #	Year (1)	Month (2)		Revenue (3)		Expense (4)
1	2019	Jan	$	(112,756)	$	(145,115)
2	2019	Feb	$	(147,280)	$	(194,601)
3	2019	Mar	$	(93,965)	$	(276,591)
4	2019	Apr	$	(131,768)	$	(275,035)
5	2019	May	$	(177,419)	$	(292,001)
6	2019	Jun	$	(261,378)	$	(312,542)
7	2019	Jul	$	(282,963)	$	(301,580)
8	2019	Aug	$	(345,790)	$	(312,027)
9	2019	Sep	$	(223,610)	$	(309,332)
10	2019	Oct	$	(210,066)	$	(301,281)
11	2019	Nov	$	(196,506)	$	(297,395)
12	2019	Dec	$	(336,319)	$	(294,287)
13		TOTAL	$	(2,519,821)	$	(3,311,788)
14						
15	Test Year Amount		$	(2,519,821)	$	(3,311,788)
16						
17	Pro Forma Year Amount		$	-	$	-
18						
19	Adjustment		$	2,519,821	$	3,311,788

This adjustment removes the MRSM revenues and expenses from the test period.

JACKSON PURCHASE ENERGY CORPORATION
For the 12 Months Ended December 31, 2019

Non-FAC Purchased Power Adjustment

Line #	Year (1)	Month (2)		Revenue (3)		Expense (4)
1	2019	Jan	$	100,365	$	96,393
2	2019	Feb	$	104,601	$	78,424
3	2019	Mar	$	65,270	$	79,167
4	2019	Apr	$	61,991	$	62,449
5	2019	May	$	68,198	$	75,336
6	2019	Jun	$	96,001	$	83,058
7	2019	Jul	$	101,743	$	100,785
8	2019	Aug	$	113,482	$	97,886
9	2019	Sep	$	79,299	$	139,653
10	2019	Oct	$	67,466	$	103,899
11	2019	Nov	$	92,043	$	124,014
12	2019	Dec	$	133,273	$	131,501
13		TOTAL	$	1,083,731	$	1,172,567
14						
15	Test Year Amount		$	1,083,731	$	1,172,567
16						
17	Pro Forma Year Amount		$	-	$	-
18						
19	Adjustment		$	(1,083,731)	$	(1,172,567)

This adjustment removes the Non-FAC PPA revenues and expenses from the test period.

JACKSON PURCHASE ENERGY CORPORATION
For the 12 Months Ended December 31, 2019

Donations, Promotional Advertising & Dues

Line #	Item (1)	Account (2)		Excluded Amount (3)
1	Donations	426.100	$	(2,249.71)
2	Media Advertising	930.400	$	(5,406.29)
3	Media Advertising	930.410	$	(340.00)
4	Media Advertising	930.420	$	(2,750.00)
5	Media Advertising	930.440	$	(1,600.00)
6	Annual Meeting - Advertising	930.224	$	(1,083.00)
7	Annual Meeting - Prizes	930.225	$	(5,120.00)
8	Annual Meeting - Printing	930.226	$	(3,181.96)
9	KY Living	930.200	$	(56,558.80)
10	Coop Sponsorships/Memberships	930.200	$	(1,932.21)
11	Coop Sponsorships/Memberships	930.300	$	(17,966.80)
12	NRECA dues	930.200	$	(40,888.50)
13	KAEC dues	588.200	$	(9,819.60)
14	KAEC dues	930.200	$	(51,482.32)
15	Scholarships	930.208	$	(7,413.50)
16	Youth Tour	930.209	$	(5,594.72)
17	Total		$	(213,387.41)

This adjustment removes charitable donations, promotional advertising expenses, and dues from the revenue requirement consistent with standard Commission practices.

JACKSON PURCHASE ENERGY CORPORATION
For the 12 Months Ended December 31, 2019

401(k) Contribution Match Expense

#	Employee #		Excluded Amount	Acct
1	*1*	$	(1,309)	580
2	*2*		(4,288)	580
3	*3*		(3,338)	580
4	*4*		(1,792)	903
5	*5*		(3,103)	580
6	*6*		(112)	920
7	*7*		(2,059)	583
8	*8*		(1,828)	588
9	*9*		(3,091)	920
10	*10*		(2,241)	588
11	*11*		(2,429)	580
12	*12*		(2,350)	920
13	*13*		(1,077)	925
14	Total	$	(29,017)	

This adjustment removes the contribution for the least generous plans for employer retirement contributions for employees participating in multiple benefit packages.

Specifically, for Non-Union employees under R&S Pension Plan and 401k match, removes the 401k match for non-union (non-contractual) employees.

Account	Total
580	(14,467)
583	(2,059)
588	(4,069)
903	(1,792)
920	(5,553)
925	(1,077)
	(29,017)

JACKSON PURCHASE ENERGY CORPORATION
For the 12 Months Ended December 31, 2017

Life Insurance

A	B	C	D	E	F	G	H
						(E * 2)	((G-F)/G)*B
Empl #	Total Premium	Acct	Ending 2019 Rate	Ending 2019 Salary	Lesser of $50k or Salary	Coverage - 2x Salary	Amount to Exclude
1	$ 129.60	580	$ 27.13	$ 56,430.40	$ 50,000.00	$ 112,860.80	$ (72.18)
2	437.88	580	52.40	108,992.00	50,000.00	217,984.00	$ (337.44)
3	368.60	580	45.94	95,546.36	50,000.00	191,092.72	$ (272.15)
4	196.56	903	21.55	44,824.00	44,824.00	89,648.00	$ (98.28)
5	348.48	580	37.58	78,162.76	50,000.00	156,325.52	$ (237.02)
6	227.88	583	24.90	51,792.00	50,000.00	103,584.00	$ (117.88)
7	201.00	588	22.10	45,968.00	45,968.00	91,936.00	$ (100.50)
8	303.84	920	38.32	79,705.60	50,000.00	159,411.20	$ (208.54)
9	236.76	588	25.82	53,705.60	50,000.00	107,411.20	$ (126.55)
10	84.00	580	28.01	58,260.80	50,000.00	116,521.60	$ (47.96)
11	160.92	910	18.62	38,729.60	38,729.60	77,459.20	$ (80.46)
12	254.64	920	27.99	58,219.20	50,000.00	116,438.40	$ (145.29)
13	113.20	925	35.10	73,008.00	50,000.00	146,016.00	$ (74.44)
14	192.12	580	21.03	43,742.40	43,742.40	87,484.80	$ (96.06)
15	165.24	903	18.45	38,376.00	38,376.00	76,752.00	$ (82.62)
16	183.24	903	23.53	48,942.40	48,942.40	97,884.80	$ (91.62)
17	232.32	588	25.43	52,894.40	50,000.00	105,788.80	$ (122.52)
18	178.68	903	22.58	46,966.40	46,966.40	93,932.80	$ (89.34)
19	165.24	910	18.06	37,564.80	37,564.80	75,129.60	$ (82.62)
20	384.24	920	40.96	85,202.00	50,000.00	170,404.00	$ (271.50)
21	174.24	903	23.50	48,880.00	48,880.00	97,760.00	$ (87.12)
22	647.88	580	71.64	149,000.80	50,000.00	298,001.60	$ (539.18)
23	201.00	903	31.10	64,680.72	50,000.00	129,361.44	$ (123.31)
24	156.36	903	18.12	37,689.60	37,689.60	75,379.20	$ (78.18)
25	174.24	903	19.38	40,310.40	40,310.40	80,620.80	$ (87.12)
26	268.08	580	36.14	75,172.76	50,000.00	150,345.52	$ (178.93)
27	201.00	588	23.57	49,025.60	49,025.60	98,051.20	$ (100.50)
28	415.56	920	55.64	115,733.28	50,000.00	231,466.56	$ (325.79)
29	647.88	920	72.12	150,000.76	50,000.00	300,001.52	$ (539.90)
30	183.24	920	21.36	44,428.80	44,428.80	88,857.60	$ (91.62)
31	205.56	920	27.54	57,283.20	50,000.00	114,566.40	$ (115.85)
32	1,206.36	920	136.72	284,378.12	50,000.00	568,756.24	$ (1,100.31)
33	225.28	920	27.28	56,732.00	50,000.00	113,464.00	$ (126.01)
34	266.20	920	32.81	68,250.00	50,000.00	136,500.00	$ (168.69)
35	204.82	920	26.04	54,163.20	50,000.00	108,326.40	$ (110.28)
36	316.50	920	48.08	100,000.68	50,000.00	200,001.36	$ (237.38)
37	234.60	163	30.89	64,260.04	50,000.00	128,520.08	$ (143.33)
38	98.32	903	16.20	33,696.00	33,696.00	67,392.00	$ (49.16)
39	67.00	588	21.35	44,408.00	44,408.00	88,816.00	$ (33.50)
40	111.72	580	26.10	54,288.00	50,000.00	108,576.00	$ (60.27)
41	73.74	903	16.20	33,696.00	33,696.00	67,392.00	$ (36.87)
42	143.35	925	37.02	77,000.04	50,000.00	154,000.08	$ (96.81)
43	83.75	588	21.35	44,408.00	44,408.00	88,816.00	$ (41.88)
Total	$ 10,871.12						$ (7,226.94)

BY ACCOUNT

Account	Total
163	$ (143.33)
580	$ (1,841.19)
583	$ (117.88)
588	$ (525.44)
903	$ (823.62)
910	$ (163.08)
920	$ (3,441.15)
925	$ (171.24)

Reduction to Expense	**$ (7,083.61)**
Reduction to Balance Sheet accounts	$ (143.33)
Total Check	$ (7,226.94)

This adjustment removes Life insurance premiums for coverage above the lesser of an employee's annual salary or $50,000 from the test period.

Reference Schedule: 1.08

Revised 01/03/2022

JACKSON PURCHASE ENERGY CORPORATION
For the 12 Months Ended December 31, 2017

Rate Case Expenses

Line #	Item (1)		Expense (2)
1	Legal - Goss Samford PLLC	$	125,000
2	Consulting - Catalyst Consulting LLC	$	50,000
3	Advertising / Notices	$	-
4	Subtotal	$	175,000
5			
6	Total Amount	$	175,000
7	Amortization Period (Years)	$	3
8	Annual Amortization Amount	$	58,333
9			
10	Test Year Amount	$	87,034
11			
12	Pro Forma Year Amount	$	58,333
13			
14	Adjustment	$	(28,701)

This adjustment estimates the rate case costs amortized over a 3 year period, consistent with standard Commission practice.

Test year included expense from last rate case which offsets adjusment.

Reference Schedule: 1.09

Revised 11-29-2021

JACKSON PURCHASE ENERGY CORPORATION
For the 12 Months Ended December 31, 2019

Interest Expense

#	Note #		Oustanding Principal 12/31/2020	Lender	Rate		Interest
1	1-1		1,231,384.40	RUS/FFB	2.457%	$	30,255.11
2	1-2		1,071,428.76	RUS/FFB	2.457%	$	26,325.00
3	2-1		2,953,846.18	RUS/FFB	4.264%	$	125,952.00
4	2-2		2,953,846.18	RUS/FFB	4.157%	$	122,791.39
5	2-3		3,750,000.00	RUS/FFB	2.144%	$	80,400.00
6	3-1		17,897,229.89	RUS/FFB	1.537%	$	275,080.42
7	3-2		3,010,195.66	RUS/FFB	1.552%	$	46,718.24
8	3-3		21,926,146.48	RUS/FFB	1.988%	$	435,891.79
9	9003005		401,765.21	CFC	2.700%	$	10,847.66
10	9003006		624,064.97	CFC	2.900%	$	18,097.88
11	9003007		649,879.93	CFC	3.100%	$	20,146.28
12	9003008		676,246.94	CFC	3.100%	$	20,963.66
13	9003009		705,489.54	CFC	3.150%	$	22,222.92
14	9003010		734,340.85	CFC	3.150%	$	23,131.74
15	9003011		765,018.30	CFC	3.200%	$	24,480.59
16	9003012		796,585	CFC	3.250%	$	25,889.03
17	9003013		830,929	CFC	3.300%	$	27,420.65
18	9003014		865,465	CFC	3.300%	$	28,560.33
19	9003015		901,975	CFC	3.350%	$	30,216.16
20	9003016		939,781	CFC	3.400%	$	31,952.55
21	9003017		980,249	CFC	3.400%	$	33,328.46
22	9003018		1,021,610	CFC	3.450%	$	35,245.53
23	9003019		1,065,126	CFC	3.500%	$	37,279.40
24	9003020		954,876	CFC	3.550%	$	33,898.10
25	9003021		694,348	CFC	3.550%	$	24,649.34
26	9003022		722,411	CFC	3.600%	$	26,006.80
27	9003023		751,764	CFC	3.650%	$	27,439.38
28	9003024		782,264	CFC	3.700%	$	28,943.78
29	9003025		709,523	CFC	3.700%	$	26,252.34
30	9003026		70,275	CFC	3.750%	$	2,635.33
31	ML0731T2		862,363	CoBank	2.530%	$	21,817.77
32	ML0731T3		526,300	CoBank	2.530%	$	13,315.39
33	ML0731T5		331,366	CoBank	2.530%	$	8,383.56
34	RX0731T7		1,359,102	CoBank	4.690%	$	63,741.87
35	RX0731T8		1,818,878	CoBank	4.900%	$	89,125.04
36	RIML0731T9		6,560,267	CoBank	4.500%	$	295,212.00
37	LTD per Form 7	$	82,896,339			$	2,194,617.50
38							
39	Test Year Amount					$	1,961,144.08
40							
41	Pro Forma Year Amount					$	2,194,617.50
42							
43	Adjustment - Account 427					$	233,473.42
44							
45	**Short Term Interest**						
46	431.00			CoBank		$	59,237.67
47	431.01			CFC		$	112,260.59
48	STD					$	171,498.26
49							
50	Pro Forma Year Amount					$	-
51							
52	Adjustment - Account 431					$	(171,498.26)

This adjustment normalizes the interest on Interest Expense from test year to recent amounts.

The adjustment also removes interest on short term borrowings repaid post-test-year.

JACKSON PURCHASE ENERGY CORPORATION
For the 12 Months Ended December 31, 2017

Interest Income

#	Acct. 419.600 Item		Cost
1			
2	Cushion of Credit Interest Income in Test Year	$	(326,174.29)
3			
4	Cushion of Credit interest income - Pro Forma year	$	-
5			
6	Pro Forma Adjustment	$	(326,174.29)

This adjustment reduces interest income from the RUS Cushion of Credit

JACKSON PURCHASE ENERGY CORPORATION
For the 12 Months Ended December 31, 2019

Year-End Customers

Line #	Year (1)	Month (2)	Res - R (3)	Com - C1 (4)	Com - C3 (5)	C&I - D (6)	Total (7)
1	2019	Jan	25,428	3,437	485	614	
2	2019	Feb	25,436	3,426	483	614	
3	2019	Mar	25,423	3,416	484	613	
4	2019	Apr	25,409	3,429	485	611	
5	2019	May	25,378	3,437	483	610	
6	2019	Jun	25,398	3,430	483	611	
7	2019	Jul	25,422	3,420	486	608	
8	2019	Aug	25,401	3,437	489	610	
9	2019	Sep	25,381	3,433	491	613	
10	2019	Oct	25,380	3,443	491	630	
11	2019	Nov	25,386	3,461	492	631	
12	2019	Dec	25,353	3,470	494	631	
13	Average		25,400	3,437	487	616	
14							
15	End of Period Increase over Avg		(47)	33	7	15	
16							
17	Total kWh		358,325,499	32,376,820	11,275,679	176,065,127	
18	Average kWh		14,107	9,420	23,153	285,820	
19	Year-End kWh Adjustment		(663,043)	310,863	162,073	4,287,300	4,097,193
20							
	(continued)						
21	**Revenue Adjustment**						
22	Current Base Rate Revenue		$ 41,110,682	$ 3,984,454	$ 1,239,498	$ 16,365,980	
23	Average Revenue per kWh		$ 0.11473	$ 0.12307	$ 0.10993	$ 0.09295	
24	Year End Revenue Adj		$ (76,071)	$ 38,256	$ 17,816	$ 398,522	378,524
25							
26	**Expense Adjustment**						
27	Avg Adj Purchase Exp per kWh		0.08010	0.08010	0.08010	0.08010	
28	Year End Expense Adj		$ (53,112)	$ 24,901	$ 12,983	$ 343,429	328,201
29							

Line #		Revenue	Expense	Net Rev
30				
31		**Revenue**	**Expense**	**Net Rev**
32	Test Year Amount	$ -	$ -	$ -
33				
34	Pro Forma Year Amount	$ 378,524	$ 328,201	$ 50,323
35				
36	Adjustment	$ 378,524	$ 328,201	$ 50,323
37				
38				

Line #	**For Expense Adjustment:**	**Test Period Total**
40	Total Purchased Power Expense	$ 50,688,769
41	Less Fuel Adjustment Clause	$ (553,082)
42	Less Environmental Surcharge	$ (4,091,656)
43	Less MRSM & NonFAC PPA	$ 4,484,355
44	Adjusted Purchased Power Expense	$ 50,528,386
45	Total Purchased Power kWh	630,786,798

This adjustment adjusts the test year expenses and revenues to reflect the number of customers at the end of the test year.

Reference Schedule: 1.12

JACKSON PURCHASE ENERGY CORPORATION
For the 12 Months Ended December 31, 2017

<u>Wages & Salaries</u>

Line #	Test Year					Pro Forma Year*			Adjustment
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
1		*Hours*	*Avg. Wage*	*Dollars*		*Hours*	*Avg. Wage*	*Dollars*	
2	Regular time	144,213.15	$ 33.78	$ 4,871,034.49		145,600.00	$ 35.49	$ 5,167,344.00	$ 296,309.51
3									
4									
5	Overtime	19,797.00	$ 58.25	$ 1,153,238.22		19,797.00	$ 59.39	$ 1,175,743.83	$ 22,505.61
6									
7									
8	Other Hours	4,353.02	$ 43.20	$ 188,028.97		4,353.02	$ 43.20	$ 188,028.97	$ -
9									
10	*Total*	168,363.17		$ 6,212,301.68		169,750.02		$ 6,531,116.80	$ 318,815.12
11									
12									
13	Payroll Expensed		3,315,612	55%					**$ 175,681.51**
14	Payroll Capitalized		1,475,504	25%					78,181.28
15	Payroll Other		1,225,836	20%					64,952.33
16	Per 2020 Form 7		6,016,952						$ 318,815.12
17									
18									
19	**Addition to Expense**								
20	580	31%	$ 54,461.27						
21	590	32%	$ 56,218.08						
22	901	17%	$ 29,865.86						
23	910	2%	$ 3,513.63						
24	920	18%	$ 31,622.67						
25	Total		**$ 175,681.51**						

* Pro Forma Year based upon 70 employees at 2080 hours, same abount of OT hours and other hours as in Test Year

This adjustment normalizes wages and salaries to account for changes due to wage increases, departures, or new hires for standard year of 2,080 hours.

JACKSON PURCHASE ENERGY CORPORATION
For the 12 Months Ended December 31, 2017

Depreciation Expense Normalization

Line #	Acct # (1)	Description (2)	Test Yr End Bal (3)	Fully Depr Items (4)	Rate (5)	Normalized Expense (6)	Test Year Expense (7)	Pro Forma Adj (8)
1	Distribution Plant							
2	360	Land	274,958	-				
3	362	Station equipment	20,063,925	-	1.60%	321,015	319,993	$ 1,022
4	362.161	Station hardware	47,989		5.00%	2,399	2,399	$ 0
5	362.162	Station software	33,207		5.00%	1,660	1,660	$ 0
6	364	Poles, towers & fixtures	45,935,171	-	4.31%	1,979,824	1,929,508	$ 50,316
7	365	Overhead conductors & devices	22,394,795	-	3.59%	803,982	794,228	$ 9,754
8	366	Underground conduit	4,934,295	-	1.69%	83,388	83,150	$ 238
9	367	Underground conductor & devices	17,555,072	-	2.90%	509,104	499,773	$ 9,331
10	368	Line transformers	22,768,892	-	5.31%	1,209,028	1,196,129	$ 12,899
11	369	Services	10,768,683	-	1.48%	159,333	156,477	$ 2,857
12	370	Meters	2,055,711	-	3.99%	82,023	82,196	$ (173)
13	370.1	AMI meters	5,185,305	-	6.67%	345,687	344,840	$ 847
14	370.161	AMI hardware	94,801	-	20.00%	18,960	18,960	$ 1
15	370.162	AMI software	65,234	-	20.00%	13,047	-	$ 13,047
16	370.2	AMI substation equipment	1,463,138	-	6.67%	97,543	97,418	$ 124
17	371	Installations on customer premises	2,630,094	-	12.09%	317,978	310,182	$ 7,797
18	373	Street Lights & Signs	646,536	-	3.47%	22,435	22,274	$ 161
19		Subtotal	$ 156,917,809	$ -		$ 5,967,407	$ 5,859,186	$ 108,221
20								
21	General Plant							
22	389	Land	86,866					
23	390	Structures and improvements	2,809,680	1,057,172	2.50%	43,813	43,692	$ 121
24	391	Office furniture and equipment	317,564	252,480	5.00%	3,254	3,787	$ (533)
25	391.1	Computer hardware/software	578,362	306,404	20.00%	54,392	21,215	$ 33,177
26	392	Transportation equipment	3,198,808	878,473	10.00%	232,033	251,143	$ (19,110)
27	392.1	Light duty transportation equipment	838,746	209,931	20.00%	125,763	113,859	$ 11,904
28	393	Stores	99,882	48,923	5.00%	2,548	2,537	$ 11
29	394	Tools, shop and garage	761,010	384,160	6.67%	25,123	24,448	$ 675
30	395	Laboratory	247,090	162,451	6.67%	5,643	5,597	$ 46
31	396	Power operated	654,505	209,530	10.00%	44,497	44,542	$ (44)
32	397	Communications	970,718	557	5.00%	48,508	47,178	$ 1,330
33	398	Miscellaneous	238,134	111,849	10.00%	12,628	11,549	$ 1,079
34		Subtotal	10,801,364	3,621,930		598,203	569,545	28,657
35		Distribution & General Total	$ 167,719,173	$ 3,621,930		$ 6,565,610	$ 6,428,731	$ 136,879
36								
37		Clearing Accounts	(lines 26,27,28,31)					(7,238)
38								

39 This adjustment normalizes depreciation expenses by replacing test year actual expenses with test year end balances (less any fully depreciated items) at approved depreciation rates.

Line #	Description	Reference	Amount
40			
41	Distribution & General Total	(line 35 - line 37)	$ 144,117
42	Clearing Accounts * 55% Expense	(line 37 * 0.55)	$ (3,981)
43	Total Adjustment to Expense	(line 41 + line 42)	$ 140,136

JACKSON PURCHASE ENERGY CORPORATION
For the 12 Months Ended December 31, 2017

Directors Expenses

#	Item	Bearden	Crouch	Elliott	Harris	Marshall	Barnes	Bell	Teitloff	Total
1	NRECA Annual Meeting - Per Diem	725.00	-	-	725.00	-	-	-	-	1,450.00
2	NRECA Annual Meeting - Expenses	2,492.57	-	-	404.46	-	-	-	-	2,897.03
	NRECA Regional Meeting	925.00	-	-	-	-	-	-	2,195.35	3,120.35
	NRECA School Fees	1,865.56	-	-	-	-	7,025.08	2,764.10	10,970.10	22,624.84
3	Big Rivers Annual Meeting	211.14	-	-	-	-	-	-	-	211.14
4	KAEC Director Meeting	-	-	-	1,411.58	-	-	-	-	1,411.58
5	NRECA Legislativer Conference	-	-	-	1,426.38	-	-	-	-	1,426.38
6	ACES Conference	-	-	-	53.08	-	-	-	-	53.08
8	TOTAL	6,219.27	-	-	4,020.50	-	7,025.08	2,764.10	13,165.45	33,194.40
9										
10										

#	Items to be removed:	Amount
11	**Items to be removed:**	**Amount**
12	NRECA Annual Meeting (Bearden)	(3,217.57)
13	NRECA Regional Meeting (Teitloff)	(2,195.35)
14	NRECA School Fees (Bearden)	(1,865.56)
15	Total to be removed:	$ (7,278.48)

Test Year Amount	$ 33,194.40
Pro Forma Amount	$ 25,915.92
Adjustment	$ (7,278.48)

This adjustment removes certain Director expenses consistent with recent Commission orders and standard Commission practices.

Reference Schedule: 1.15

JACKSON PURCHASE ENERGY CORPORATION
For the 12 Months Ended December 31, 2017

FEMA Credit

#	Account 593 Item		Cost
1	FEMA Credit	$	726,455.63
2			
3	Total	$	726,455.63
4			
5			
6	Pro Forma Adjustment	$	726,455.63

This adjustment adds back this to expense. This reserve (liability) was debited and expense was credited in the test year

JACKSON PURCHASE ENERGY CORPORATION
For the 12 Months Ended December 31, 2017

Capital Credits

#	Account 421 Item		Cost
1	Capital Credits booked to income	$	(923,313.94)
2			
3			
4	Total	$	(923,313.94)
5			
6			
7	Pro Forma Adjustment	$	(923,313.94)

This adjustment reduces non-operating income. This entry was a 1-time recovery of unclaimed capital credits to non-operating income.

Reference Schedule: 1.17
Revised 11-29-2021

JACKSON PURCHASE ENERGY CORPORATION
For the 12 Months Ended December 31, 2017

New HQ Depr & Interest

#	Accts 390 & 427 Item		Cost
1	HQ Building (excluding land)	$	19,123,332
2	Depreciation over 40 years	$	478,083
3	Old HQ Building Book value	$	1,753,000
4	Depreciation Saved on Old HQ	$	43,825
5	ProForma Adjustment Depreciation (Account 390) (line 2 minus 4)	$	434,258
6			
7	HQ Building Estimate (including land)	$	-
8	Interest @ 2.0%	$	-
9	Pro Forma Adjustment - Interest (Account 427) (See Note)	$	-

This adjustment adds to expense for depreciation costs associated with new HQ.
Interest moved to Reference Schedule 1.09

JACKSON PURCHASE ENERGY CORPORATION
For the 12 Months Ended December 31, 2017

Right of Way

#	Account 593 Item		Cost
1	Test Year Right of Way expense	$	535,753
2	Pro Forma Cost at 358 miles ($10,760/mile)	$	3,852,080
3	Adjustment	**$**	**3,316,327**

This adjustment adds to expense for new contract miles for 1/5 overhead line on system

Reference Schedule: 1.19

JACKSON PURCHASE ENERGY CORPORATION
For the 12 Months Ended December 31, 2017

Normalize 2019 Rate Revision

#	Account 421 Item		Cost	Ref
1	Residential Avg Customers Jan-May		25,405	A
2	Change in Fixed Charge (16.40 - 12.45)	$	3.95	B
3	Monthly Revenue Residential	$	100,349.75	C = (A * B)
4				
5				
6	C-1 Avg Customers Jan-May		3,429	D
7	Change in Fixed Chaarge (16.40 -13.86)	$	2.54	E
8	Monthly Revenue C-1	$	8,709.66	F = (D * E)
9				
10	Total Montly Revenue	$	109,059.41	G = (C + F)
11	x 5 months in 2019	$	545,297.05	G * 5
12				
13	Pro Forma Adjustment	$	545,297.05	Line 11

This adjustment annualizes the 2019 Rate Increase which affected only 7 of 12 months.

Reference Schedule: 1.20

JACKSON PURCHASE ENERGY CORPORATION
For the 12 Months Ended December 31, 2017

Health Care Costs

		(A)	(B)	(C)	(D)	(E)
				Health Insurance		(D - A)
#	Item	Employee Premiums	Employer Premiums	Total Premiums	12%	ProForma Adj
1						
2	Health, Dental, Vision	$ 90,758.80	$ 861,273.70	$ 952,032.50	114,243.90	$ 23,485.10
3						
4	Actual Test Year Expense					$ 861,273.70
5						
6	Pro Forma Test Year Expense					$ 837,788.60
7						
8	Expense Adjustment					$ (23,485.10)

This adjustment accounts for employee contributions to medical, dental and vision insurance premiums at 12%