COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE ELECTRONIC APPLICATION OF SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION FOR A GENERAL ADJUSTMENT OF RATES, APPROVAL OF A DEPRECIATION STUDY, AND OTHER GENERAL RELIEF	))))))	CASE NO. 2021-00407

REBUTTAL TESTIMONY OF

WILLIAM STEVEN SEELYE

MANAGING PARTNER, THE PRIME GROUP, LLC,

ON BEHALF OF

SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION

Filed: April 13, 2022

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VERIFICATION OF WILLIAM STEVEN SEELYE

STATE OF NORTH CAROLINA)
)
COUNTY OF BUNCOMBE)

William Steven Seelye, Managing Partner, The Prime Group, LLC on behalf of South Kentucky Rural Electric Cooperative Corporation, being duly sworn, states that he has supervised the preparation of his Rebuttal Testimony in the above-referenced case and that the matters and things set forth therein are true and accurate to the best of his knowledge, information and belief, formed after reasonable inquiry.

William Steven Seelye

The foregoing Verification was signed, acknowledged and sworn to before me this 11 day of April, 2022, by William Steven Seelye.

Chasity Justice
Notary Public
Buncombe County, NC
My Commission Expires: 06/08/2026

Commission expiration: 06/08/2026

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I. INTRODUCTION AND SUMMARY

Q. Please state your name and business address.

A. My name is William Steven Seelye. I am the Managing Partner of The Prime Group, LLC. The Prime Group's business address is 2604 Sunningdale Place East, La Grange, Kentucky 40031.

Q. Did you submit direct testimony in this proceeding?

A. Yes. I submitted testimony on behalf of South Kentucky Rural Electric Cooperative Corporation ("South Kentucky) in support of revenue requirements, the depreciation study, class cost of service study, proposed allocation of the revenue increase, and proposed rates.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to rebut the direct testimony of Lane Kollen who is testifying on behalf of the Office of the Attorney General of the Commonwealth of Kentucky. Specifically, I will rebut or otherwise address each of Mr. Kollen's proposed adjustments in this proceeding. Several of these adjustments are also addressed in Ms. Michelle Herman's rebuttal testimony. I will also present South Kentucky's revised proposed revenue increase in this proceeding and address South Kentucky's revised phased-in approach for incorporating the increase.

II. FUNDAMENTAL DIFFERENCES BETWEEN ELECTRIC DISTRIBUTION COOPERATIVES AND INVESTOR-OWNED UTILITIES

Q. Does Mr. Kollen seem to understand that there are fundamental differences between electric distribution cooperatives and investor-owned utilities?

A. It doesn't appear that he does. Mr. Kollen has spent a career testifying against investor-owned utilities. In Mr. Kollen's Resume that was provided in Exhibit___(LK-1) of his Direct Testimony, there is no indication that he has ever provided consulting services for an electric distribution cooperative.[1] The list of expert testimony appearances in Exhibit___(LK-1) indicates that during Mr. Kollen's almost 50-year career he has only testified in one electric distribution cooperative rate case, in Jackson Purchase Energy Corporation's ongoing rate case here in Kentucky (Case No. 2021-00358).[2]

Q. But are electric distribution cooperatives typically subject to rate regulation by public service commissions?

A. No. Electric distribution cooperatives are regulated by public service commissions in very few states. For example, electric distribution cooperatives are not regulated by the public service commissions in the neighboring states of Indiana, Ohio, Illinois, Missouri, and Tennessee. I am aware of only a handful of states in which electric

[1] See Exhibit___(LK-1), page 4.

[2] See Exhibit___(LK-1), pages 4-37. By my count, this exhibit indicates that Mr. Kollen has testified 474 times, mostly in investor-owned utility proceedings, but in only one distribution cooperative rate case, involving Jackson Purchase Energy Corporation case, which is listed on page 37.

distribution cooperatives are regulated by public service commissions, and many of those are subject only to limited regulation by the public service commission. For example, electric cooperatives in Florida are only subject to regulation of their rate designs, and not the determination of revenue requirements. It has been my experience that Generation and Transmission cooperatives (“G&Ts”) are more likely to be subject to administrative rate regulation, with some subject to rate regulation by the Federal Energy Regulatory Commission. Therefore, it is not surprising that Mr. Kollen has not testified in many distribution cooperative rate cases.

Q. Who typically approves changes to distribution cooperatives’ rates in other states?

A. In most states, changes to an electric distribution cooperative’s rates are approved by the cooperative’s board of directors.

Q. Why are electric distribution cooperatives in most states not regulated by public service commissions?

A. Electric distribution cooperatives are not-for-profit organizations. The members of an electric cooperative are the owners of the utility. Unlike an investor-owned utility, electric distribution cooperatives are not owned by outside investors. With electric distribution cooperatives, it is not possible to transfer the utility’s earnings to outside stockholders. Therefore, with a distribution cooperative it is not imperative for a regulatory agency to balance the interests between the utility’s customer and the utility’s shareholders or equity holders. An electric cooperative’s owner-members are the equity holders and margins are returned to them through capital credits.

Owner-members of cooperatives also have direct influence over how the cooperative is managed through the election of the boards of directors. Unlike investor-owned utilities, if the owner-members of a cooperative do not believe the cooperative is being managed with their best interests in mind, they can elect new board members. In the handful of states in which electric cooperatives are rate regulated by a public service commission, it has been my experience that the commission focuses more on rate design issues than the determination of revenue requirements because it is presumed that the cooperative's board of directors will serve in the fiduciary interests of the cooperative's owner-members.

Q. Have you provided rate consulting services to electric distribution cooperatives in other states?

A. Yes. During my career, I have developed or supervised the development of revenue requirements and rates for more than a hundred distribution cooperatives throughout the United States.

Q. How are revenue requirements typically determined for *non-regulated* electric distribution cooperatives?

A. The key metric that is typically used to determine revenue requirements for *non-regulated* distribution cooperatives is the rate of return on the cooperative's net investment in utility property. Over the past 20 years, a 6% rate of return on net investment is a level typically used to set rates, although this rate of return will vary depending on the percentage of members' equity to total capitalization for the utility. Some electric distribution cooperatives rely very little on outside borrowing to fund their capital investments. Electric distribution cooperatives with equity ratios of 80% or higher will sometimes set rates based on a rate of return below 6%. In addition to the rate of return on net investment, distribution cooperative managements or boards are sometimes also interested in seeing what the Operating Times Interest Earned ("OTIER") or, less frequently, the Times Interest Earned ("TIER") that the new rates will produce on a pro forma basis.

Q. On the other hand, how are revenue requirements typically determined for *regulated* electric distribution cooperatives?

A. For *regulated* distribution cooperatives, revenue requirements are typically determined on the basis of TIER, OTIER, or Debt Service Coverage Ratio (DSC). An authorized TIER in the range of 2.0 to 2.3 is common.

Q. Has Mr. Kollen approached his review of South Kentucky's revenue requirements essentially the same way he would for an investor-owned utility?

A. Yes. Mr. Kollen is proposing adjustments to South Kentucky's revenue requirements that are unreasonably and unnecessarily harsh and punitive for an electric cooperative. As I mentioned above, South Kentucky is a not-for-profit utility, and its owner-owner-members *own* the equity in the cooperative. Any earnings after the payment of its expenses and interest to its lenders belong to South Kentucky owner-members, and ultimately the members' equity is either used to fund the installation or replacement of distribution facilities for South Kentucky's owner-members or it is returned to its owner-members through capital credits (i.e., through the retirement of capital credits). Over time, all members' equity is eventually returned to South Kentucky's owner-members through the distribution of capital credits. Therefore, unlike an investor-owned utility, it is not possible for outside investors to over-earn because there are no outside investors. In a very real sense, it is not possible for an electric distribution cooperative to over-earn, because the cooperative's members hold the value of the cooperative's earnings. It is simply an issue of the extent to which earnings will be used for system upgrades and a matter of timing as to when the cooperative's earnings are returned to its members. These are issues considered by cooperative boards of directors. Mr. Kollen seems to be under the misapprehension that investors in the electric cooperative will somehow be enriched by the cooperative's earnings, which is clearly impossible because the cooperative's earnings belong to its owner-members. Therefore, Mr. Kollen's proposal to trim South Kentucky's earnings is a misguided attempt to save South Kentucky's members from themselves. If South Kentucky realizes additional earnings as a result of this proposed rate increase then it will only allow South Kentucky to reduce debt thereby strengthening its balance sheet, and allow South Kentucky to continue to provide safe and reliable service, and allow South Kentucky to eventually return those additional earnings to its owner-members through the distribution of capital credits.

Q. When was the last time that South Kentucky filed a rate case?

A. South Kentucky filed the application in its last rate case on June 8, 2011, which was over ten years ago.[3] During this period, many of the other utilities in Kentucky have

[3] *See,* Case No. 2011-00096, *In the Matter of: Application of South Kentucky Rural Electric Cooperative Corporation for an Adjustment of Rates.*

filed multiple rate cases. There is no better evidence that the management team and board members at South Kentucky have been excellent stewards of members' funds. Mr. Kollen raises the specter that if South Kentucky's revenue requirements were based on a 2.0 TIER that it will somehow induce South Kentucky to engage in "additional discretionary spending".[4] The Commission authorized a TIER of 2.1 for South Kentucky in its last rate case,[5] yet South Kentucky has gone for ten years without filing a rate case and Mr. Kollen failed to provide a single instance of South Kentucky engaging in "additional discretionary spending" during those ten intervening years. It is instructive to this issue for the Commission to understand that Mr. Kollen made a virtually identical claim in his direct testimony filed recently in Jackson Purchase Energy Corporation's rate case proceeding.[6]

III. PRO FORMA ADJUSTMENTS

A. YEAR-END CUSTOMER ADJUSTMENT

Q. Please explain the purpose of a year-end customer adjustment and how it is determined.

A. The purpose of the year-end customer adjustment is to adjust net revenues to reflect the number of members served at the end of the test-year. Because rates are designed

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[4] Kollen Direct Testimony at 35.

[5] See Order in Case No. 2011-00096, dated March 30, 2012, at 30.

[6] *See,* Case No. 2021-00358, *In the Matter of: Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment of Rates and Other General Relief,* Direct Testimony of Lane Kollen at 38.

to reflect costs on a going-forward basis, an adjustment is typically made in rate cases to annualize the impact of the level of end-year customers served by the utility. This adjustment is typically only made in rate cases based on historical test-year costs. For rate base regulated utilities, such as investor-owned utilities in Kentucky, the adjustment serves to match test-year revenues to the year-end rate base and other expenses adjusted to year-end levels. Following the practice that has been followed in numerous rate cases, South Kentucky's proposed adjustment was calculated by adjusting revenues for each rate class to reflect the number of customers served at the end of the test year and then applying an operating ratio of 84.66% to the revenue adjustment amount. The operating ratio was determined as the percentage of annual operating expenses less wages and salaries and pension and benefits, divided by annual operating revenues. This is the standard approach that has been used for decades in Kentucky. For example, see Order in Case No. 2004-00067 for Delta Natural Gas Company, Order in Case No. 2000-080 for Louisville Gas and Electric Company, and Case No. 90-158 for Louisville Gas and Electric Company.

Q. What is the purpose of applying an operating ratio in the year-end customer adjustment?

A. Applying the operating ratio to the revenue adjustment is necessary to match year-end expenses to the year-end revenues. If revenues are to be adjusted to reflect year-end customers, then a corresponding adjustment must be made to reflect year-end expenses. This is the standard approach that has been used for decades in Kentucky.

Q. Does Mr. Kollen propose to modify South Kentucky's adjustment?

A. Yes. Mr. Kollen proposes to calculate the operating ratio using only purchased power expense and environmental surcharge expense. His adjustment results in a reduction in revenue requirements of $73,000.

Q. Do you agree with Mr. Kollen's modifications?

A. No. Mr. Kollen's approach is flawed. In support of his approach, Mr. Kollen misconstrues comments made in a data request dealing with an altogether different subject matter. Specifically, Mr Kollen quotes South Kentucky's response to AG 2-35, in which the response states:

> Revenues do not drive South Kentucky's controllable expenses. Revenues are driven by kWh sales. Higher kWh sales will increase the cost of purchased power on line 2 of the Statement of Operations, but not controllable expense categories on lines 4- 9. The cost for purchase power is driven by members' demand for electricity.[7]

In relying on this response for his position, Mr. Kollen confuses the impact that changes in kWh sales have on expenses with the increased expenses necessary to serve new customers. South Kentucky's response to AG 2-35 addresses variable expenses related to changes in kWh sales. This response does not address changes in expenses reflecting customers served by the cooperative. Mr. Kollen erroneously conflates kWh with the customers served by South Kentucky. It should not need to be pointed out that the adjustment in question is a ***year-end customer*** adjustment and not a ***year-end kWh*** adjustment.

Mr. Kollen also conflates changes in revenues to changes in the number of

[7] South Kentucky's Response to AG 2-35.

customers. Specifically, he quotes South Kentucky's response to AG 2-30 indicated that depreciation expenses and interest "would not be expenses to change with an increase in revenue." Again, South Kentucky is not proposing a ***year-end revenue*** adjustment, but a ***year-end customer*** adjustment to reflect the number of year-end customers served by South Kentucky.

Q. Do South Kentucky's operating expenses increase as a consequence of serving customers?

A. Yes, they do. When South Kentucky adds members, the cooperative must install new distribution facilities to serve the new member. To serve new members, spans of conductor must be installed, transformers must be installed, services must be installed, and meters must be installed. The new distribution facilities installed to serve new members must be operated, they must be maintained, property taxes must be paid on the facilities, interest must be paid on the cost of the new facilities, thus resulting in higher operating expenses, higher maintenance expenses, higher property taxes, etc. When members are added, the cooperative incurs higher meter reading and billing expenses. Therefore, the increased costs related to adding new members are not confined simply to increases in purchased power and environmental surcharge expenses, as proposed by Mr. Kollen.

Q. Mr. Kollen references the Application in Jackson Purchase's ongoing rate cases in support of his position. Is the fact that Jackson Purchase Energy Corporation chose to limit operating expenses to only purchased power expense relevant?

A. The fact that another cooperative chose to use a less inclusive operating ratio is not dispositive. It is noteworthy that Mr. Kollen cites a filing by a utility rather than an analysis and ruling by the Commission. Furthermore, Mr. Kollen fails to address the theoretical basis for the adjustment. Instead, he frames the pro forma adjustment incorrectly as an adjustment that reflects changes in kWh sales or changes in revenues instead of an adjustment to annualize net revenues to reflect increases in customers served at the end of the test year.

Q. What is your recommendation regarding the year-end customer adjustment?

A. It is my recommendation that the Commission accept South Kentucky's year-end customer adjustment and reject Mr. Kollen's modifications to the adjustment. His modifications are unsound.

Q. Do you have any other comments regarding the year-end customer adjustment?

A. Yes. As a theoretical matter, there is a question of whether a year-end adjustment is even appropriate for a cooperative for which revenue requirements are determined based on Times Interest Earned Ratio ("TIER"). For an investor-owned utility for which revenue requirements are determined based on a return on *historical* year-end rate base, a year-end adjustment is appropriate. When year-end rate base is used, the investor-owned utility's synchronized return, interest expenses, income taxes, etc. are annualized based on year-end rate base; therefore, it is appropriate to annualize revenues to reflect year-end customers. But for an electric cooperative for which revenue requirements are determined based on TIER, the cooperative's margins, interest expenses, etc. have not been annualized based on year-end investment. Therefore, the appropriateness of making a year-end adjustment must be questioned.

Nevertheless, South Kentucky included a year-end adjustment consistent with past practice in Kentucky using the methodology that has been approved by the Commission in a number of rate case orders. But it would be inappropriate to increase the adjustment further by excluding expenses such as distribution operation and maintenance expenses, property taxes, etc. that are clearly impacted by year-end customers.

B. TEMPORARY STAFFING ADJUSTMENT

Q. Mr. Kollen proposes to reduce operating expenses to reflect the elimination of temporary staffing assistance. Does South Kentucky agree with this adjustment?

A. No. Mr. Kollen is proposing to reduce South Kentucky's revenue requirements by $107,000 to reflect an extraordinary reduction in temporary staffing by South Kentucky during the COVID-19 pandemic. This expense reduction was temporary and not reflective of costs on a going forward basis. The purpose of establishing a test year for the determination of revenue requirements in a rate case is to develop costs that are reasonable on a going forward basis.[8] Mr. Kollen's proposal to reduce operating expenses to reflect a short-term and extraordinary reduction in the use of temporary employees violates this fundamental ratemaking principle. These expenses are addressed in more detail in Ms. Herman's rebuttal testimony.

Q. What is your recommendation regarding Mr. Kollen's adjustment?

[8] For example, see *New England Tel. & Tel. Co. v. Public Util. Comm'n*, 358 A.2d 1,20 (R.I. 1976) ("A fundamental rule of rate-making is that rates are exclusively prospective in nature.").

A. It is my recommendation that the Commission reject Mr. Kollen's modifications to the adjustment to eliminate expenses related to temporary staffing assistance.

C. REMOVAL OF CAPITALIZED PORTION OF SALARIES AND WAGES

Q. Mr. Kollen proposes to adjust revenue requirements to remove the capitalized portion of South Kentucky's annual wages and salaries adjustment. Does South Kentucky agree with Mr. Kollen's proposal?

A. No. As explained in Ms. Herman's Rebuttal Testimony, Mr. Kollen used a capitalization percentage that is based on regular labor expenses and did not include both regular labor and overtime labor. Mr. Kollen's adjustment is flawed and should be rejected.

D. NONOPERATING INCOME

Q. Mr. Kollen proposes a number of adjustments involving the treatment of non-cash earnings in the calculation of TIER. Please identify the adjustments proposed by Mr. Kollen.

A. In the table on page 4 of his Direct Testimony, Mr. Kollen proposes three adjustments related to South Kentucky's treatment of non-operating margins in the calculation of TIER – a $1,684,000 adjustment related to interest income, a $115.000 adjustment for non-operating margins, and a $136,000 adjustment for other capital credits. Since these three adjustments are interrelated and based on Mr. Kollen's misunderstandings about South Kentucky's TIER calculation in this proceeding, I will address them together.

Q. How was TIER calculated in this proceeding?

A. TIER was defined in a manner consistent with prior definitions of TIER in rate case proceedings for South Kentucky and other electric cooperatives in Kentucky. Specifically, TIER was calculated excluding non-cash operating income such as G&T capital credits or other non-operating credits. Mr. Kollen suggests that non-cash income and other non-operating interest such as G&T credits should be included in the calculation of TIER. While I agree that this is not the definition of TIER used by RUS in its debt covenants, the removal of non-operating income is consistent with the way that TIER was calculated in prior rate cases. Historically, the largest non-operating income items recorded by South Kentucky are the G&T capital credits which generally represent non-cash income recorded by cooperatives. This income is viewed as uncertain and does not correspond to cash received by the cooperative. Consistent with prior Commission practice, non-operating items have been removed from the calculation of TIER.

Q. Are there other problems with Mr. Kollen's adjustment?

A. Yes. He proposes to remove non-operating interest income of $1,684,000 and then he makes an adjustment to utilize cushion of credit deposits to repay highest RUS/FFB Debt Issuances. Because the $1,684,000 is included in cushion of credit, Mr. Kollen is effectively reducing the interest twice. However, neither adjustment is appropriate. Ms. Herrman addresses the cushion of credit interest in her Rebuttal Testimony.

Q. Do you recommend that the Commission reject these three adjustments related

to non-operating income proposed by Mr. Kollen?

A. Yes.

E. COMPUTATIONAL ERRORS

Q. Mr. Kollen identifies a rounding error in the TIER determination resulting in an increase in revenue requirements of $90,000 and an adjustment to remove a double counting of long-term debt interest resulting in a decrease in revenue requirements of $30,000. Do you agree with these adjustments?

A. Yes. They will be reflected in a revised revenue increase calculation addressed later in my testimony.

F. ANNUALIZATION OF INTEREST ON DEBT

Q. Mr. Kollen proposes to reduce revenue requirements by $438,000 to reflect Debt outstanding at March 31, 2020, and to make a further adjustment to interest annualization of $34,000. Does South Kentucky agree with these amounts?

A. No. Mr. Herman addresses the level of interest expenses that are appropriate on a going-forward basis in her Rebuttal Testimony.

G. CUSHION OF CREDIT

Q. Mr. Kollen proposes to utilize cushion of credit deposits to repay highest RUS/FFB Debt Issuances. Does South Kentucky agree with this adjustment?

A. No. Mr. Kollen proposes an imprudent course of action that is not permitted by RUS, and one that is contrary to the interests of South Kentucky's owner-members. Ms. Herrman addresses these problems in greater detail in her Rebuttal Testimony.

H. AN APPROPRIATE TIER

Q. Mr. Kollen proposes a 1.50 TIER. Is this reasonable.

A. No. Mr. Kollen's recommendation is arbitrary, punitive, not supported by any empirical analysis, does not consider normative values for electric cooperatives in the United States, and is insufficient to provide for financial contingencies that could arise from numerous uncertainties, such as inflation, economic recessions, storm damage, weather variability, epidemics, etc. Like the Commission recently found in Jackson Purchase's general rate case, a TIER any lower than 2.00 would reduce South Kentucky's cash flow and operating margin to an unreasonable level.[9]

Q. Does Mr. Kollen provide any kind of support for his recommended TIER?

A. No.

Q. For investor-owned utilities there are standard methodologies for determining a utility's rate of return on equity ("ROE"). Are there similar standard methodologies for determining TIER, OTIER, ROR, etc. for electric distribution cooperatives?

A. No. Investor-owned utilities support their proposed ROEs using methodologies such as Discounted Cash Flows ("DCF"), Risk Premium analysis, and Capital Asset Pricing

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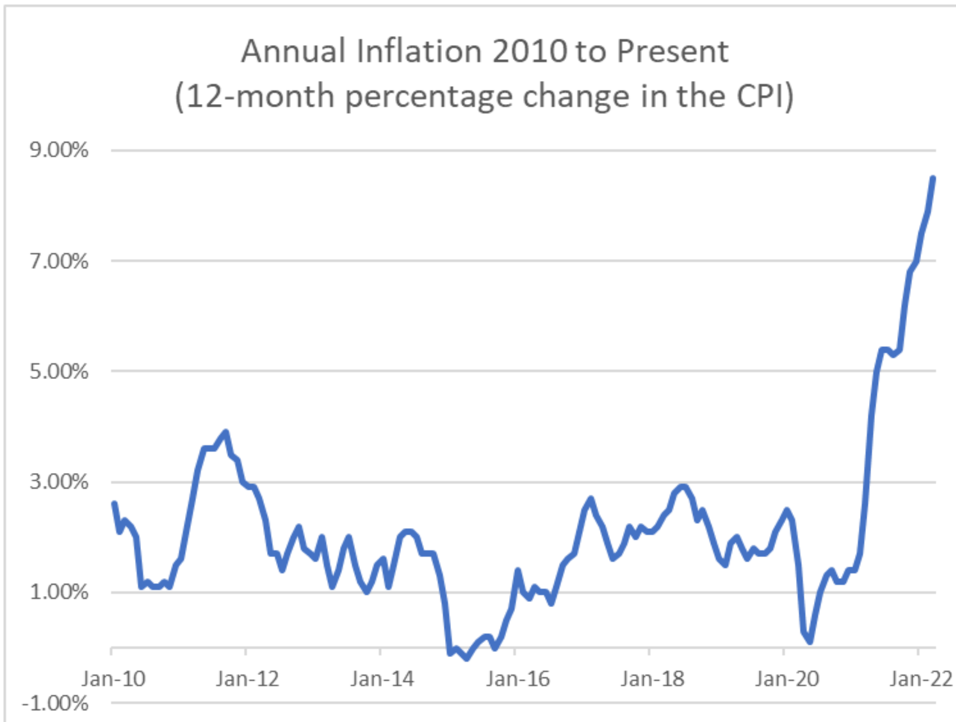
[9] *See,* Case No. 2021-00358, *In the Matter of: Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment of Rates and Other General Relief,* Final Order (April 8, 2022), pp. 16-18.

Models ("CAPM"). There are no equivalent standard methodologies for determining key financial performance metrics for electric distribution cooperatives. As I mentioned earlier, most electric distribution cooperatives in the United States are not subject to rate regulation by public service commissions. For most electric distribution cooperatives in the United States, rates are approved by cooperative Boards of Directors. Based on my personal experience working with distribution cooperatives, most cooperative boards are interested in maintaining earnings that will allow the utility to have the resources to install and maintain distribution facilities necessary to provide safe and reliable utility service. Cooperative boards are also concerned with having sufficient earnings to maintain an appropriate percentage of equity and avoid excessive debt. Cooperative boards also seek to maintain adequate earnings to withstand earning erosion due to inflation, due to economic recessions, or to withstand earnings volatility due to unforeseen events such as storms and due to weather volatility. Cooperative boards also consider normative values for rates of return on net investment, equity ratios OTIER, and TIER.

Q. IS SOUTH KENTUCKY'S PROPOSED TIER OF 2.00 CONSISTENT WITH THE TIER AUTHORIZED BY THE COMMISSION IN PRIOR SOUTH KENTUCKY RATE ORDERS?

A. Yes. In its Order in Case No. 2011-00096, dated March 30, 2012, the Commission authorized a TIER for South Kentucky of 2.1, *excluding South Kentucky's non-operating income recorded as Generation and Transmission Capital Credits*. It is important to consider that the Commission authorized a 2.1 TIER for South Kentucky during a period when inflation was a fraction of what it is today.[10] In March 2022, the consumer price index (CPI) surged to 8.5%, the fastest annual pace since December 1981.[11] This makes six straight months with inflation above 6%.[12] The following graph shows the annual inflation rate for the last decade:



Source: U. S. Bureau of Labor Statistics, https://www.bls.gov/charts/consumer-price-index/consumer-price-index-by-category-line-chart.htm

[10] The Commission authorized a TIER of 2.0 excluding G&T capital credits for Taylor County RECC (Case No. 2012-00023), Jackson Energy (Case No. 2013-00219), Kenergy Corp (Case No. 2015-00312), Farmers RECC (Case No. 2016-00365), Big Sandy RECC (Case No. 2017-00374).

[11] "U.S. Inflation Hit Four-Decade High in March", Wall Street Journal, April 12, 2022.

[12] *Id*. The annual inflation rates were 6.2% in October 2021, 6.8% in November 2021, 7.0% in December 2021, 7.5% in January 2022, 7.9% in February 2022, and 8.5% in March 2022. U.S. Department of Labor Statistics.

In 2012, when the Commission authorized a 2.1 TIER for South Kentucky, the CPI was increasing by only 1.7%. It is unreasonable to lower South Kentucky's TIER to 1.50, as proposed by Mr. Kollen, when consumer prices are increasing by over 8% and with wholesale prices increasing by more than 14%, as they currently are now.[13] Such an unreasonable TIER could erode South Kentucky's cash flows and margins and create financial problems for South Kentucky in the current inflationary period.

Q. Many economists are concerned that both record inflation and an economic recession are likely. How would this affect South Kentucky?

A. The combination of inflation and an economic downturn would further impair South Kentucky's margins and cash flows. Many economists are concerned that the economy could soon experience both inflation and an economic downturn.[14] With the combination of inflation and an economic downturn, such as the so-called "stagflation" that occurred in the late 1970s, South Kentucky could see its costs rise and its net revenues contract, resulting in reduced margins and further cash flow problems.

Q. How does South Kentucky's proposed TIER of 2.0% compare to other electric cooperatives in the United States?

A. As noted earlier, South Kentucky's TIER was calculated to exclude non-operating income; therefore, it is essentially comparable to the OTIERs reported by other

[13] *Id.*

[14] For example, see "Why are Economists Worrying About a Recession?", *The New York Times*, April 5, 2022.

cooperatives. According to the *2020 Key Ratio Trend Analysis* ("KRTA) prepared by the National Rural Utilities Cooperative Finance Corporation ("NRUCFC"), the median OTIER of all utilities in the United States during the calendar year 2020 was 2.24. The median OTIER for electric cooperatives of similar size to South Kentucky was 2.11 during 2020. The pages from the 2020 KRTA showing the OTIER and other metrics are included in Seelye Rebuttal Exhibit WSS-1. Therefore, based on the median OTIER achieved by other electric cooperatives in the United States, there is no justification for using a TIER (or OTIER) of 1.50 as proposed by Mr. Kollen.

Q. Mr. Kollen claims that South Kentucky has not presented evidence in support of its proposed TIER. Is he correct?

A. No. South Kentucky relied on Commission precedent for its proposed TIER. As explained in my Direct Testimony, the Commission has routinely allowed electric cooperatives to use a 2.0 TIER or higher to set rates in general rate cases. In South Kentucky's last rate case, the Commission authorized a TIER of 2.1, and the Commission has routinely authorized a TIER of 2.0 in numerous other rate cases, and with no more quantitative analysis than what South Kentucky has presented. Mr. Kollen is the one who is asking the Commission to move away from a longstanding practice. The burden is therefore on Mr. Kollen to provide quantitative justification for a movement away from Commission practice.

Q. Mr. Kollen claims that South Kentucky's requested 2.0 TIER is excessive compared to the financial and credit metrics required by its lenders. What is your response to this claim?

A. Mr. Kollen conflates a *reasonable* financial metric with a *minimum* financial metric. He suggests that the minimum financial metrics should be used as a guide by the Commission in authorizing a TIER. The minimum financial metrics set forth in South Kentucky's debt covenants have been there for decades and the Commission has never deemed them to be appropriate for setting TIER. In its Order in Case No. 2013-00199, involving Big Rivers, the Commission specifically rejected Mr. Kollen's notion that minimum coverage ratios, stating that, "It is inappropriate to base a cooperative's revenue requirement on the minimum TIER it is required to achieve in order to be in compliance with its mortgage or other controlling loan agreements."[15] The Commission's Order went on to say that "the use of a minimum coverage ratio will provide no 'cushion' in the event of an unexpected decline in revenues or unavoidable increase in expenses." This is particularly true in the current economic environment in which we are seeing retail price increases of 8% or more and wholesale price increases over 14%.[16] Mr. Kollen has provided no justification for deviating from the Commission's longstanding practice of authorizing a TIER of 2.0 or higher in general rate cases for electric distribution cooperatives.

Q. Mr. Kollen claims that South Kentucky's requested 2.0 TIER is excessive because the cooperative has more than sufficient members' equity and no longer needs margins equivalent to its long-term debt interest to increase members' equity. Is

[15] *See,* Case No. 2013-00199, *In the Matter of: Application of Big Rivers Electric Corporation for a General Adjustment in Rates Supported by Fully Forecasted Test Period,* Final Order (April 25, 2014), p. 30.

[16] Op. Cit.

Mr. Kollen correct?

A. No. Mr. Kollen fails to explain what he means by "sufficient members' equity"; therefore, he cannot reasonably claim that South Kentucky has more than sufficient members' equity. As seen in pages from the 2020 KRTA provided in Rebuttal Exhibit WSS-1, South Kentucky's equity ratio (i.e., equity as a percentage of total capitalization) is lower than the median for all cooperatives and is lower than the median for cooperatives in Kentucky. South Kentucky must rely either on outside borrowing or member's equity to fund its distribution system. Mr. Kollen has not demonstrated that increasing debt is a prudent course of action for South Kentucky.

Q. Mr. Kollen claims that a TIER of 2.0 will result in an incentive for additional discretionary spending and will not result in equivalent increases in net margins. Do you agree?

A. No. Mr. Kollen has offered no support whatsoever for this claim. He has not demonstrated that South Kentucky has ever increased discretionary spending as a result of increased margins. Furthermore, he provides no explanation of what he considers to be "discretionary" much less identify a single expenditure made by South Kentucky that he considers "discretionary". Mr. Kollen's testimony implies that board members, who are also owner-members themselves, and are elected by members to represent their interests in the cooperative, would seek to artificially increase TIER in order for the cooperative to realize more cash to engage in discretionary spending. Mr. Kollen ignores the fact that South Kentucky has not filed a rate case in over ten years, which itself demonstrates excellent stewardship of members' funds. Furthermore, South Kentucky delayed filing this rate case because of the COVID-19 epidemic. Mr. Kollen offers no evidence that a 2.0 TIER will allow South Kentucky to increase its discretionary spending. Mr. Kollen's claim suggests that by allowing a 2.0 TIER, the Commission has for decades provided an incentive for electric distribution cooperatives in Kentucky to abuse their fiduciary responsibility by increasing their discretionary spending. Just the opposite is true. Because of the Commission's close scrutiny of electric distribution cooperatives under its jurisdiction, such as South Kentucky, there is a substantial *disincentive* for any cooperative utility to seek additional revenues for discretionary spending purposes. Mr. Kollen's position on this issue is illogical and should be disregarded by the Commission..

Q. Mr. Kollen claims that South Kentucky's margins will not be returned to members on an equivalent basis. What is your response?

A. His argument is irrelevant. South Kentucky has never claimed that its margins will be returned to its members on an "equivalent basis". Once again, this argument underscores a profound lack of understanding and experience working with distribution cooperatives. A distribution cooperative must fund its system (conductor, poles, transformers, services, meters, etc.) with either borrowed funds or members' equity. If members' equity is not used to fund the system, then borrowed funds must be used. Decreasing the percentage of members' equity would necessarily result in increasing the percentage of debt. Members' equity has always been a source of capital for funding the distribution system. For a rural electric cooperative, members' equity is an investment in the facilities used to provide service to the members. Even though members' equity is returned to members through the distribution of capital credits, the purpose of the equity has never been to provide a return on the equity to the members. Once again, Mr. Kollen is looking at distribution cooperatives as if they were investor-owned utilities. Shareholders in an investor-owned utility do expect a return on their investment. They expect dividends and growth in those dividends and perhaps gains in the value of their investments. This was never the type of compact that members of rural electric cooperatives expected. Members of rural electric cooperatives are the owners of the cooperative. As with any cooperative, they are rural owner-members who want safe and reliable service and at a reasonable cost. Their membership in the cooperative was never defined as a business arrangement in which they would receive a return on their investment in the cooperative, as suggested by Mr. Kollen.

Q. Would Mr. Kollen's proposed TIER have an adverse impact on South Kentucky's net margins and cash flows?

A. Yes. Mr. Kollen's recommended 1.50 TIER is lower than any TIER the Commission has authorized for an electric distribution cooperative in the last two decades or more. In March 2022, the annual inflation rate in the US accelerated to the highest levels since December of 1981.[17] Because of these record levels of inflation, South Kentucky and electric cooperatives nationally are facing enormous economic

[17] See U.S. Bureau of Labor Statistics, *Economic News Release*, March 10, 2022, and April 12, 2022.

pressures and uncertainties. Mr. Kollen's proposed 1.50 TIER would place South Kentucky in a difficult position to deal with the large cost increases that it is currently experiencing, such as increases in transportation costs,[18] processed material costs,[19] machinery and vehicle costs,[20] transformer costs, conductor costs,[21] and about every other out-of-pocket cost incurred by the cooperative. For example, line transformers are one the largest capital expenditure costs incurred by South Kentucky. As seen in Seelye Rebuttal Exhibit WSS-2, the weighted purchase cost of transformers has increased by more than 29% (or 13.6% annually) from 2020 to 2021. In the current inflationary environment, a TIER of 2.0 is absolutely necessary to prevent these historic cost increases from eroding South Kentucky's net margins and cash flows.

Q. Did Mr. Kollen consider the reductions in South Kentucky's cash flows the past several years?

A. No. South Kentucky's cash flows have deteriorated steadily during the period from 2016 through 2021, requiring the cooperative to increase its borrowings to maintain its cash flow. The following table shows the annual change in cash flow before and after cash provided from new debt:

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[18] For example, according to data published by the United State Bureau of Labor Statistics, the price of gasoline has increased 44% nationally from February 2021 to February 2022.

[19] According to data published by the United State Bureau of Labor Statistics, the cost of processed materials has increased 24% from February 2021 to February 2022. See United State Bureau of Labor Statistics*, Producer Price Indexes – February 2022*.

[20] Machinery and vehicle costs have increased 22.7% from February 2021 to February 2022. *Id.*

[21] South Kentucky is seeing some conductor costs increase by more than 27%.

Year	Net Change in Year End Cash Before New Borrowings	Cash From New Debt	Net Change in Year End Cash
2017	$ (10,056,372)	$ 4,000,000	$ (6,056,372)
2018	(8,671,039)	19,000,000	10,328,961
2019	(9,536,113)	-	(9,536,113)
2020	(7,599,004)	17,000,000	9,400,996
2021	(6,116,718)	-	(6,116,718)

This table shows that South Kentucky's declining cash position has required it to add new debt. The Commission has long recognized the need for cooperatives to maintain a financial cushion to deal with unexpected cost increases.[22] Mr. Kollen's 1.50 TIER will not provide a sufficient financial cushion that will allow South Kentucky to maintain adequate cash reserves to deal with the cost pressures that South Kentucky is currently experiencing due to inflationary and other economic pressures that are outside of its control. A 2.0 TIER for South Kentucky is necessary and appropriate during these uncertain economic times.

I. PSC ASSESSMENT FEES

Q. Mr. Kollen proposes to adjust an adjustment to reduce the PSC Assessment Fee by $14,000. Do you agree with this adjustment?

A. No. While I do not agree with Mr. Kollen's specific amount, I do agree with the principle that the pro forma adjustment for PSC fees should be adjusted to reflect the

[22] See Order in Case No. 2013-00199 for Big Rivers, dated April 25, 2014. *Op. cit.* at 30.

revenue increase proposed by the Commission. I have modified the pro forma adjustment in the calculation of South Kentucky's revised revenue increase discussed below.

IV. SOUTH KENTUCKY'S REVISED REVENUE INCREASE

Q. Have you prepared an exhibit calculating South Kentucky's revised revenue increase based on the corrections to revenue requirements discussed above and in Ms. Herrman's testimony?

A. Yes. Rebuttal Exhibit WSS-3 is a revised calculation of the total revenue increase reflecting four adjustments. Specifically, the increase has been modified to reflect the following corrections: (1) a reduction in expense for the wages and salaries adjustment of $38,231 as noted in South Kentucky's response to Question 45 of the AG's First Data Request; (2) an increase in revenue requirements of $90,000, to correct a rounding error in the TIER determination; (3) a reduction in revenue requirements of $33,818 due to the revised annualization of interest expenses addressed in Ms. Herrman's Rebuttal Testimony; and, (4) a reduction in expense to reflect the corresponding change in the PSC assessment fees corresponding to these three adjustments. As shown in the exhibit, South Kentucky's revised total revenue increase is $8,669,257.

V. PHASED-IN INCREASE

Q. Is South Kentucky still proposing to implement the above increase using a

phased-in approach?

A. Yes. However, if the total increase authorized by the Commission is less than $6 million, then South Kentucky proposes to eliminate the phased-in approach and implement all of the increase upon the implementation of new rates at the end of the five-month suspension period.

V. DEPRECIATION STUDY

Q. Did Mr. Kollen offer any criticisms of South Kentucky's depreciation study or recommend depreciation rates that differ from what were proposed by South Kentucky?

A. No.

V. COST OF SERVICE STUDY, ALLOCATION OF THE REVENUE INCREASE, AND RATE DESIGN

Q. Did Mr. Kollen offer any criticisms of South Kentucky's class cost of service study, proposed allocation of the revenue increase, or rate design, including the proposed customer charge?

A. No.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

Rebuttal Exhibit WSS-1

CFC Key Ratio Trend Analysis (KRTA) Financial Metrics

2020 Key Ratio Trend Analysis (KRTA)
South Kentucky Rural Electric Cooperative Corporation (KY054)

		US Total			State Grouping			Consumer Size			Major Current Power Supplier			Plant Growth (2015-2020)		
Year	System Value	Median	NBR	Rank	Median	NBR	Rank	Median	NBR	Rank	Median	NBR	Rank	Median	NBR	Rank
RATIO 7 --- TIER (2 OF 3 YEAR HIGH AVERAGE)																
2016	2.90	2.79	809	364	3.10	22	14	2.66	39	15	3.61	16	14	2.68	253	104
2017	2.72	2.77	813	430	2.69	22	11	2.76	40	22	3.12	16	10	2.75	239	124
2018	2.67	2.87	814	475	2.68	22	12	2.91	40	25	2.86	16	11	2.80	230	129
2019	2.57	2.90	816	524	2.58	22	12	2.98	36	27	2.66	16	11	2.85	253	155
2020	2.49	2.98	815	564	3.05	22	18	2.93	39	28	3.15	16	15	2.94	249	175
RATIO 8 --- OTIER																
2016	1.25	1.94	809	708	1.32	22	12	1.92	39	36	1.24	16	8	1.92	253	209
2017	1.32	1.94	813	699	1.39	22	12	2.00	40	35	1.39	16	9	1.97	239	207
2018	1.54	2.17	814	686	1.70	22	14	2.17	40	32	1.70	16	11	2.11	230	190
2019	1.07	2.03	816	774	1.39	22	18	1.98	36	36	1.39	16	14	1.98	253	239
2020	1.53	2.24	815	695	1.89	22	16	2.11	39	32	1.89	16	13	2.29	249	215
RATIO 9 --- OTIER (2 OF 3 YEAR HIGH AVERAGE)																
2016	1.47	2.10	809	701	1.74	22	16	1.98	39	35	1.66	16	10	2.03	253	216
2017	1.28	2.07	813	756	1.48	22	14	2.02	40	38	1.45	16	9	2.06	239	219
2018	1.43	2.23	814	742	1.67	22	13	2.32	40	38	1.53	16	9	2.17	230	205
2019	1.43	2.24	816	761	1.63	22	15	2.27	36	35	1.55	16	11	2.15	253	232
2020	1.54	2.35	815	739	1.92	22	17	2.26	39	38	1.92	16	14	2.36	249	222
RATIO 10 --- MODIFIED DSC (MDSC)																
2016	1.44	1.83	809	679	1.67	22	16	2.00	39	36	1.54	16	10	1.77	253	211
2017	1.38	1.82	813	716	1.59	22	15	1.79	40	38	1.46	16	9	1.81	239	210
2018	1.58	1.92	814	620	1.74	22	16	1.84	40	31	1.68	16	10	1.89	230	174
2019	1.36	1.91	816	739	1.82	22	21	1.91	36	33	1.82	16	15	1.86	253	232
2020	1.53	1.96	815	651	1.85	22	19	1.81	39	30	1.82	16	13	2.02	249	203
RATIO 11 --- MDSC (2 OF 3 YEAR HIGH AVERAGE)																
2016	1.57	1.94	809	657	1.68	22	16	2.01	39	35	1.62	16	10	1.86	253	206
2017	1.41	1.95	813	754	1.65	22	18	2.00	40	39	1.60	16	12	1.94	239	221
2018	1.51	1.96	814	714	1.75	22	17	1.94	40	38	1.68	16	11	1.93	230	204
2019	1.48	2.00	816	730	1.77	22	20	1.99	36	34	1.70	16	14	1.94	253	227
2020	1.56	2.05	815	690	1.91	22	20	2.01	39	35	1.91	16	14	2.03	249	214
RATIO 12 --- DEBT SERVICE COVERAGE (DSC)																
2016	1.97	2.06	809	454	2.05	22	15	2.11	39	25	2.15	16	13	1.98	253	130
2017	1.93	2.04	813	468	1.85	22	10	1.97	40	24	1.80	16	6	2.01	239	136
2018	1.82	2.14	814	583	2.09	22	16	2.11	40	28	2.09	16	13	2.09	230	167
2019	1.74	2.11	816	597	2.13	22	20	2.12	36	28	2.19	16	16	2.08	253	185
2020	1.89	2.13	815	537	2.11	22	15	2.05	39	24	2.08	16	11	2.16	249	170

		US Total			State Grouping			Consumer Size			Major Current Power Supplier			Plant Growth (2015-2020)		
Year	System Value	Median	NBR	Rank	Median	NBR	Rank	Median	NBR	Rank	Median	NBR	Rank	Median	NBR	Rank
RATIO 13 --- DSC (2 OF 3 YEAR HIGH AVERAGE)																
2016	2.26	2.18	809	365	2.22	22	9	2.26	39	20	2.25	16	8	2.10	253	97
2017	2.01	2.17	813	481	2.00	22	10	2.26	40	27	2.05	16	9	2.11	239	137
2018	1.95	2.22	814	543	2.15	22	15	2.25	40	28	2.15	16	11	2.13	230	149
2019	1.88	2.21	816	593	2.08	22	18	2.19	36	26	2.08	16	15	2.14	253	182
2020	1.85	2.24	815	614	2.17	22	20	2.24	39	31	2.17	16	16	2.22	249	192
RATIO 14 --- ODSC																
2016	1.32	1.75	809	711	1.61	22	17	1.93	39	38	1.52	16	11	1.72	253	216
2017	1.28	1.74	813	731	1.57	22	17	1.71	40	40	1.41	16	11	1.75	239	209
2018	1.46	1.85	814	661	1.67	22	17	1.77	40	35	1.62	16	11	1.80	230	191
2019	1.22	1.81	816	767	1.67	22	20	1.81	36	35	1.67	16	14	1.77	253	238
2020	1.40	1.88	815	694	1.72	22	21	1.77	39	33	1.72	16	15	1.94	249	211
RATIO 15 --- ODSC (2 OF 3 YEAR HIGH AVERAGE)																
2016	1.48	1.84	809	665	1.66	22	15	1.96	39	35	1.59	16	10	1.77	253	201
2017	1.31	1.85	813	763	1.63	22	18	1.91	40	40	1.56	16	12	1.88	239	226
2018	1.39	1.88	814	739	1.72	22	18	1.88	40	39	1.66	16	12	1.86	230	212
2019	1.37	1.90	816	751	1.70	22	20	1.90	36	35	1.66	16	14	1.85	253	232
2020	1.43	1.95	815	736	1.82	22	22	1.97	39	37	1.82	16	16	1.92	249	222
RATIO 16 --- EQUITY AS A % OF ASSETS																
2016	41.88	44.83	809	495	44.16	22	13	41.98	39	21	44.98	16	10	45.12	253	163
2017	44.52	45.27	813	431	45.32	22	13	42.92	40	15	45.32	16	10	46.05	239	137
2018	44.45	45.62	814	453	46.48	22	13	43.17	40	17	46.48	16	10	45.93	230	136
2019	47.01	45.61	816	380	47.07	22	12	43.70	36	12	47.07	16	9	46.35	253	124
2020	46.48	45.80	815	390	47.06	22	13	43.28	39	12	47.06	16	10	46.99	249	129
RATIO 17 --- DISTRIBUTION EQUITY (EXCLUDES EQUITY IN ASSOC. ORG'S PATRONAGE CAPITAL)																
2016	25.76	36.41	809	675	26.53	22	12	34.69	39	32	24.23	16	6	37.32	253	223
2017	27.36	36.73	813	654	28.43	22	12	34.56	40	32	24.79	16	6	38.64	239	202
2018	27.66	37.60	814	658	29.48	22	13	35.52	40	33	26.46	16	7	36.94	230	195
2019	29.46	37.45	816	620	29.57	22	12	35.87	36	27	27.25	16	6	37.40	253	200
2020	28.53	37.37	815	636	30.64	22	14	35.32	39	28	27.19	16	8	38.83	249	202
RATIO 18 --- EQUITY AS A % OF TOTAL CAPITALIZATION																
2016	47.28	50.80	809	503	50.89	22	14	50.31	39	25	50.89	16	10	51.09	253	162
2017	50.31	51.82	813	449	52.18	22	13	51.44	40	25	51.70	16	9	52.65	239	135
2018	49.55	52.45	814	489	53.25	22	14	51.50	40	25	51.97	16	10	52.14	230	139
2019	52.35	52.55	816	414	54.44	22	13	52.69	36	19	52.97	16	9	52.86	253	131
2020	51.95	52.39	815	418	52.89	22	14	51.14	39	19	52.89	16	11	53.84	249	136

Rebuttal Exhibit WSS-2

Transformer Cost Increases from 2020 vs 2022

SKRECC
TRANSFORMER COST
2020 VS 2022

TRANSFORMERS	**2020 Cost per unit**	**2022 Cost per unit**	**VARIANCE**	**%**	**Units Purchased Test Year**	**Test Year Cost**	**2022 Year Cost**	
15KVA 1 BUSHING TRANSFORMER 120/240 7200	$ 627.00	$ 799.00	$ 172.00	27.43%	534	$ 334,818.00	$ 426,666.00	
25KVA 1 BUSHING TRANSFORMER 120/240 7200	$ 816.00	$ 1,041.00	$ 225.00	27.57%	241	$ 196,656.00	$ 250,881.00	
15KVA 1 BUSHING TRANSFORMER 120/240 14400	$ 782.00	$ 991.00	$ 209.00	26.73%	56	$ 43,792.00	$ 55,496.00	
25KVA 1 BUSHING TRANSFORMER 120/240 14400*	$ 1,030.00	$ 1,096.00	N/A*	-	18	$ 18,540.00	$ 19,728.00	
50KVA 2 BUSHING TRANSFORMER 120/240 7200	$ 1,164.00	$ 1,484.00	$ 320.00	27.49%	25	$ 29,100.00	$ 37,100.00	
25KVA POLE MOUNTED TRANSFORMER 277/480 7200	$ 750.00	$ 1,005.00	$ 255.00	34.00%	6	$ 4,500.00	$ 6,030.00	
25KVA PADMOUNT TRANSFORMER 120/240 7200	$ 1,261.00	$ 1,645.00	$ 384.00	30.45%	39	$ 49,179.00	$ 64,155.00	
50KVA PADMOUNT TRANSFORMER 120/240 7200**	$ 1,575.00	$ 2,008.00	N/A**	-	21	$ 33,075.00	$ 42,168.00	
1500KVA 3PHASE PADMOUNT TRANSFORMER 277/480	$ 20,050.00	$ 34,062.00	$ 14,012.00	69.89%	2	$ 40,100.00	$ 68,124.00	
Weighted Percentage Increase in the Cost of Transformers					**942**	**$ 749,760.00**	**$ 970,348.00**	**29.42%**

*LAST PURCHASED IN 2021 AT $1,096.00: $66.00 INCREASE
**LAST PURCHASED IN 2021 AT $2,008.00: $433.00 INCREASE

Rebuttal Exhibit WSS-3

Revised Revenue Increase Analysis

South Kentucky Rural Electric Cooperative Corporation

Adjustments to Operating Revenues, Operating Expenses and Net Operating Margins
For the test year April 1, 2019 to March 31,2020

		Reference Schedule (1)	Revenue (2)	Purchased Power Expenses (3)	Operation and Maintenance Expenses (4)	Depreciation Expenses (5)	Other Taxes (6)	Utility Operating Margin (7)	Interest on Long-Term Debt (8)	Interest Exp - Other (9)	Other Deductions (10)	Net Operating Margin (11)	TIER Without Gen and Other Credits (12)
1	**Test-Year Actual per Books**	1.00	$109,771,296	$74,246,944	$19,874,740	$9,078,214	$349,207	$6,222,190	$5,529,181	$45,453	$31,996	$615,560	1.11
2	**Pro-Forma Adjustments:**												
3	Salaries and Wages	2.01			$205,096			($205,096)				($205,096)	
4	Annualization of Board of Director Elections	2.02			$45,000			($45,000)				($45,000)	
5	Bad debt expense recapture	2.03			$1,427,442			($1,427,442)				($1,427,442)	
6	Annual audit fees	2.04			$13,290			($13,290)				($13,290)	
7	Reduction in annual energy assistance from EKPC	2.05			$100,906			($100,906)				($100,906)	
8	Non-recurring back tax payment	2.06					($181,484)	$181,484				$181,484	
9	Interest on cushion of credit	2.07	($1,401,979)					($1,401,979)				($1,401,979)	
10	2020 RUS loans	2.08						-	$251,280 *			($251,280)	
11	Amortization of rate case expenses	2.09			$62,000			($62,000)				($62,000)	
12	Year-End Revenue Adjustment	2.10	$533,835		$451,946			$81,889				$81,889	
13	Normalized Depreciation Expenses	2.11				$522,000		($522,000)				($522,000)	
14	Removal of 401k match	2.12			($186,211)			$186,211				$186,211	
15	Life Insurance Premiums over $50,000	2.13			($40,500)			$40,500				$40,500	
16	Excluded Board of Director Expenses	2.14			($24,586)			$24,586				$24,586	
17	FAC/ES Revenues and Expenses	2.15	$0					($0)				($0)	
18	Charitable and political contributions	2.16						-			($27,307)	$27,307	
19	Total Adjustments		$ (868,144)	$ -	$ 2,054,383	$ 522,000	$ (181,484)	$ (3,263,043)	$ 251,280	$ -	$ (27,307)	$ (3,487,017)	
20	**Test-Year as Adjusted**		$ 108,903,152	$ 74,246,944	$ 21,929,123	$ 9,600,214	$ 167,724	$ 2,959,147	$ 5,780,462	$ 45,453	$ 4,689	$ (2,871,457)	0.50
21	**Revenue Increase**		**$8,669,257** **										
22	PSC Assessment Fee	2.17			$ 17,338.51 ***								
23	**Test-Year as Adjusted for Revenue Increase**		$ 117,572,409	$ 74,246,944	$ 21,946,462	$ 9,600,214	$ 167,724	$ 11,611,065	$ 5,780,462	$ 45,453	$ 4,689	$ 5,780,462	2.00
24	Percentage Revenue Increase		7.90%										

* See revised Schedule 2.08 shown in Ms. Herman's Rebuttal Testimony.
** Rounding problem corrected
*** Adjsuted to reflect revised adjustments