COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE ELECTRONIC APPLICATION OF	)	
TAYLOR COUNTY RURAL ELECTRIC	)	**Case No. 2023-000147**
COOPERATIVE CORPORATION FOR	)	
A GENERAL ADJUSTMENT OF RATES	)	

REBUTTAL TESTIMONY OF

JOHN WOLFRAM

PRINCIPAL, CATALYST CONSULTING LLC

ON BEHALF OF

TAYLOR COUNTY RURAL ELECTRIC

COOPERATIVE CORPORATION

Filed: September 15, 2023

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE ELECTRONIC APPLICATION OF TAYLOR COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION FOR A GENERAL ADJUSTMENT OF RATES	))))	Case No. 2023-000147

VERIFICATION OF JOHN WOLFRAM

COMMONWEALTH OF KENTUCKY)
COUNTY OF JEFFERSON)

John Wolfram, 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.

John Wolfram

John Wolfram

The foregoing Verification was signed, acknowledged and sworn to before me this ____ day of September 2023, by John Wolfram.

Anne L. Foye

Commission expiration: 6-12-2025

ANNE L FOYE
Notary Public - State at Large
Kentucky
My Commission Expires June 12, 2025
Notary ID KYNP29156

REBUTTAL TESTIMONY
OF
JOHN WOLFRAM

I. INTRODUCTION

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

A. My name is John Wolfram. I am the Principal of Catalyst Consulting LLC. My business address is 3308 Haddon Road, Louisville, Kentucky, 40241.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of Taylor County Rural Electric Cooperative Corporation ("TCRECC").

Q. ARE YOU THE SAME INDIVIDUAL THAT PROVIDED DIRECT TESTIMONY IN THIS CASE?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my testimony is to respond to the recommendations of Witness Mr. John Defever, CPA on behalf of the Office of the Attorney General of the Commonwealth of Kentucky ("AG"), as provided in Mr. Defever's direct testimony dated August 18, 2023.

Q. DID MR. DEFEVER MAKE RECOMMENDATIONS REGARDING TCRECC'S OPERATING REVENUES AND EXPENSES?

A. Yes. Mr. Defever made recommendations regarding the effect of eleven different items on the proposed revenue requirement in this case. I will respond to each item and recommendation in turn.

Q. WHAT DID THE AG RECOMMEND REGARDING OTHER ELECTRIC REVENUES?

A. Mr. Defever states that TCRECC's request is based on a year which reflects decreased revenues impacted by the pandemic--that 2021 Other Electric Revenues decreased during the pandemic but rebounded in 2022. He states that the 2022 Other Electric Revenues have recovered to pre-pandemic levels, are the most known and measurable, and thus inclusion of the 2022 Other Electric Revenues would be more appropriate than using 2021 test year amounts.

Q. HOW DO YOU RESPOND?

A. I disagree with this recommendation. Using the 2022 Other Electric Revenues would amount to a wholesale replacement, not an adjustment. The 2021 Other Electric Revenue amounts correspond to the usage, rate revenue, expense, and operations for the 2021 period. The 2022 amounts are too far out beyond the end of the test period and using them would violate the matching principle. It is not reasonable to make this adjustment and the Commission should not accept this recommendation.

Q. WHAT DID THE AG RECOMMEND REGARDING RIGHT OF WAY ("ROW") EXPENSE?

A. Mr. Defever states that due to the Company's record of ROW spending, it would be inappropriate to allow the requested increase for ROW maintenance, and instead the Commission should base the adjusted test year ROW expense on a three-year average of spending for 2021-2023. This would result in a reduction of $2,317,454 to the Company's proforma cost of $4,330,556. He also recommended that

TCRECC record as a regulatory liability, the annual amounts spent below the Commission authorized amount to either return to customers in the next rate case or to offset any overspending in the interim period until the next rate case.

Q. HOW DO YOU RESPOND?

A. I disagree with this recommendation. First, it is not appropriate to use the average of the historical ROW spending to determine the amount that TCRECC requires to achieve the vegetation management goals, because the historical spend has been insufficient to permit TCRECC to reach those goals. This is the whole point of the adjustment—TCRECC has not performed enough tree trimming to remain on the target cycle and must have more revenue to pay for those expenditures going forward.

Mr. Williams discusses this issue in more detail in his rebuttal testimony.

Also, it is not necessary to establish any regulatory liability for this item; doing so would constitute single issue ratemaking, which is not appropriate. It would also be unconventional for a distribution cooperative to adopt that kind of practice.

The adjustment proposed by TCRECC is based on the amount of circuit trimming that is needed to reach the target cycle, at the costs TCRECC would spend for that work based on the latest prices. The Commission should approve the adjustment as filed by TCRECC.

Q. WHAT DID THE AG RECOMMEND REGARDING EMPLOYEE AWARDS?

A. Mr. Defever notes that TCRECC included $10,915 for employee awards in the adjusted test year, and these amounts should be excluded from rates.

Q. HOW DO YOU RESPOND?

A. Mr. Defever is correct. These amounts were inadvertently included and should be removed from the revenue requirement and excluded from member rates.

Q. WHAT DID THE AG RECOMMEND REGARDING DIRECTOR EXPENSES?

A. Mr. Defever recommended that the Commission disallow the Directors' per diem and retainer fees, because these items were not included in TCRECC's last rate case.

Q. HOW DO YOU RESPOND?

A. I disagree with this recommendation. First, TCRECC is not limited to treating individual items in this case the exact same way they were treated over a decade ago. Not only does TCRECC have a new CEO and general counsel since then, but also the Commission has addressed Directors' compensation in other cooperative rate filings since that time and has not disallowed Directors' per diems and retainers as a standard practice.

Second, the AG claims TCRECC has not justified this increase to ratepayers. However, Mr. Williams explained that until 2023, the Board was compensated by per diems and health insurance. The health insurance was a high-deductible insurance plan identical to what the employees received. Upon discussion by the Board, CEO and Counsel, the Board sought to shift away from insurance and move toward a retainer, or monthly fee for their services. The CEO reviewed other cooperatives' compensation for Board members at statewide meetings with other CEOs and discussed with the Board, who also discussed with other Board members from around the state. The Board chose to end the health insurance benefit provided and move to be more consistent with other cooperatives. Hence the shift to a monthly fee, or retainer, and a per diem. Mr. Williams discusses this in more detail in his rebuttal testimony. These costs are reasonable expenses for director compensation, pursuant to the review and approval of the Board. For these reasons, it is not reasonable to make this adjustment and the Commission should not accept this recommendation.

Q. WHAT DID THE AG RECOMMEND REGARDING HEALTH CARE COST?

A. Mr. Defever recommended that the Commission should adjust TCRECC's health care costs to meet the Bureau of Labor & Statistics' ("BLS") average levels in the response to PSC2-19. He also recommended correcting a clerical error to a reference in Exhibit JW-2.

Q. HOW DO YOU RESPOND?

A. I disagree with the recommendation to adjust health care expenses to the BLS levels. Mr. Defever cites to the Commission's order in a South Kentucky R.E.C.C. ("South Kentucky") rate case, but TCRECC differs from South Kentucky in that South Kentucky provided 100 percent of single coverage health insurance premiums. In that case the Commission acted in a manner consistent with the requirements in the streamlined rate pilot program, which requires an adjustment to BLS levels only if the employee contributions to health insurance premiums are zero. For TCRECC the employee contributions are not zero, and applying the BLS here would be inconsistent with the treatment afforded to South Kentucky in its traditional rate case and to the cooperatives filing under the streamlined pilot program. The levels of employee contributions required by TCRECC provide a reasonable justification for including health care expenses in the adjusted revenue requirement as filed.

Mr. Defever's observation about the clerical error is correct and TCRECC agrees with the recommended correction to Exhibit JW-2, page 2.

Q. WHAT DID THE AG RECOMMEND REGARDING DEPRECIATION EXPENSE?

A. Mr. Defever recommended that for normalizing depreciation expenses, TCRECC should use balances as of same date as rate base, i.e., use 2021 year-end balances instead of 2022 year-end balances.

Q. HOW DO YOU RESPOND?

A. Mr. Defever raises a fair point. TCRECC used 2022 year end balances for this normalization because those amounts were known and measurable, and the Commission historically applies the known and measurable standard to pro forma adjustments. However, the Commission has also recognized the importance of the matching principle and at times has placed limits on the amount of time between the end of the test period and the timeframe for adjustments. TCRECC placed more emphasis on the known and measurable standard than on the matching principle in this instance but recognizes the importance of both concepts. The adjustment proposed by Mr. Defever here is reasonable. If it is accepted by the Commission, then the AG's recommended adjustment for Other Electric Revenue should be rejected on the same grounds.

Q. WHAT DID THE AG RECOMMEND REGARDING LEGAL EXPENSE?

A. Mr. Defever recommended that a five year average legal expense be used in place of the actual test year legal expense, because the test year legal expense was higher than three of the past five years.

Q. HOW DO YOU RESPOND?

A. I disagree with this recommendation. The test year legal expense was impacted by the union negotiations, but those negotiations not only will recur, but also are not the only driver for increasing legal costs. In the past, TCRECC's general counsel did not attend the Board meetings. That practice has changed. Other business drivers like ROW contracts will also require increased legal scrutiny.

Using a five year average introduces other problems, mostly because the five year window includes the period of the pandemic, when legal costs dropped to very low levels. For these reasons TCRECC believes the test year legal expenses are reasonable and should not be adjusted.

Q. WHAT DID THE AG RECOMMEND REGARDING NON-RECURRING COST?

A. Mr. Defever recommended that costs for preliminary work for a GPS System Project on the basis that this expense is nonrecurring.

Q. HOW DO YOU RESPOND?

A. TCRECC accepts that the adjustment proposed by Mr. Defever here is reasonable and should be adopted.

Q. WHAT DID THE AG RECOMMEND REGARDING METER TESTING?

A. Mr. Defever recommended that the test year meter sampling costs be reduced to reflect the testing of only 1,000 meters annually and that certain consulting fees be removed from test year expenses.

Q. HOW DO YOU RESPOND?

A. TCRECC accepts that the adjustment proposed by Mr. Defever here is reasonable and should be adopted.

Q. WHAT DID THE AG RECOMMEND REGARDING 401(K) EXPENSE?

A. Mr. Defever recommended the disallowance of the entire proposed increase to 401(k) expense, based on the fact that TCRECC had no studies to support its request and on the view that the changes to the 401(k) approved by the Board were not sufficiently supported.

Q. HOW DO YOU RESPOND?

A. I disagree with this recommendation. As Mr. Williams explained, the Board approved the changes to the 401(k) plan in part to improve morale, safety, and employee retention. The lack of a formal study does not render the Board's decision unreasonable or even "unsupported" and does not justify excluding these costs from member rates. Approximately 70 percent of the TCRECC workforce is union labor and the 401(k) policies factor heavily into the union contract negotiations. Mr. Williams discusses this issue in more detail in his rebuttal testimony. The AG did not acknowledge the merit of these points in support of the adjustment, nor has the AG demonstrated that the changes to the 401(k) plan are unreasonable. For these reasons the Commission should reject this recommendation.

Q. WHAT DID THE AG RECOMMEND REGARDING RATE CASE EXPENSE?

A. Mr. Defever recommended that the Commission amortize rate case costs over six years instead of the conventional three years, because TCRECC's last two rate cases were much more than three years apart.

Q. HOW DO YOU RESPOND?

A. I disagree with this recommendation. The Commission should amortize the rate case expenses over a three-year period because that is the long-standing Commission practice, which encourages utilities to file rate cases about every three years. Also, it is reasonable to expect that TCRECC will file rate cases more frequently in the future than has been done in the past. For these reasons, the Commission should adhere to its conventional approach and reject this recommendation.

Q. BASED ON THE RESPONSES DESCRIBED HEREIN, WHAT IS THE REVISED REVENUE DEFICIENCY FOR TCRECC IN THIS CASE?

A. The requested increase changes from $6,377,383 to $6,133,136, or a decrease of $244,247.

Q. DOES THIS REVISION SUBSTANTIALLY CHANGE THE RESULTS OF THE COST OF SERVICE STUDY?

A. No. The revised pro forma adjustments have a very small effect on the cost-based rates and do not change the relative assessment of overall rates of return for TCRECC's rate classes.

Q. HOW DOES THE UPDATED REVENUE DEFICIENCY TRANSLATE INTO REVISED RATES?

A. Because the fundamental results of the cost of service study do not change, the allocation of the proposed increase does not change; the proposed per-unit charges change slightly in order to yield the target revenue increase. In particular, the proposed energy charge for residential changes from $0.094458 per kWh to $0.093771 per kWh.

Q. DID YOU UPDATE THE FILED EXHIBITS TO REFLECT TCRECC'S RESPONSE TO THE AG'S RECOMMENDATIONS?

A. Yes. Updated files for Exhibit JW-2 (revenue requirement with pro forma adjustments), Exhibits JW-3 through JW-8 (cost of service study updated for pro forma adjustment revisions) and Exhibit JW-9 (present and proposed rates for revised revenue deficiency) are provided electronically with this rebuttal testimony. The Commission should rely on the updated exhibits in rendering its decision on TCRECC's application in this case.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

UPDATED EXHIBITS

JW-2 THROUGH JW-8

ARE EXCEL SPREADSHEETS

AND ARE BEING UPLOADED SEPARATELY