

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)	

POST HEARING BRIEF

Comes now, Taylor County Rural Electric Cooperative Corporation (“Taylor County” or the “Company”), by counsel, pursuant to the Kentucky Public Service Commission’s (“Commission”) October 30, 2023 Order in this proceeding setting forth the post-hearing procedural schedule and the deadline for submitting a post-hearing brief in support of its position in this matter, and respectfully states as follows:

I. INTRODUCTION

Taylor County filed its Notice of Intent to file this rate proceeding on May 1, 2023. Taylor County filed its Application on June 6, 2023. The Attorney General’s Office of Rate Intervention (“AG”) was granted intervention on June 6, 2023. The Commission entered an Order on June 15, 2023 suspending the rates proposed by Taylor County until December 6, 2023. Taylor County responded to four rounds of discovery from Commission Staff and two rounds of discovery from the AG. The AG filed its Direct Testimony on August 18, 2023 and Taylor County filed its rebuttal testimony on September 15, 2023. A hearing was held on October 26, 2023. A post-hearing procedural schedule

was entered on October 30, 2023. Post-hearing data requests were filed and responded to by Taylor County.

II. ARGUMENT

A. Taylor County's Rate Design is Reasonable And It Is Supported By The Cost Of Service Study

Taylor County engaged the services of Catalyst Consulting LLC (“Catalyst”) to perform a comprehensive cost of service study (“COSS”) to assist Taylor County in designing its proposed rates. Mr. John Wolfram, Principal of Catalyst, conducted the COSS which showed that residential was the only rate class for which an increase was warranted and which supported a residential customer charge of up to \$30.77. Taylor County chose to gradually move towards the cost based rates and not seek the entire \$30.77 customer charge that was supported. Instead, Taylor County proposed to increase the current customer charge of \$10.22 to 16.84.¹ In addition, Taylor County chose to distribute the required rate increase with more of the increase accounted for in the customer charge, as opposed to the energy charge, because it was consistent with the COSS and would create the least negative impact to its members in the most vulnerable economic situations. Applying more of the rate increase to the customer charge, which is fixed, means that it is the least volatile option and based upon Taylor County’s experience, members who can least afford an increase use more energy due to poorly insulated homes which use more energy. As stated above, the COSS supported much more of an increase and Taylor County chose to reduce the requested customer charge increase in order to make the rate increase more gradual, despite the fact that any increase will be met with some level of objection, and Taylor County is cognizant of the increasing economic demands on its members.

¹ See, Rebuttal Testimony of John Wolfram, (Sept. 15, 2023).

***B. Taylor County's Pro Forma Adjustments Are Reasonable and Should be Accepted
By The Commission***

i. Taylor County's Pro Forma Adjustment For Interest Expense Is Reasonable

Taylor County included a pro forma adjustment in the amount of \$832,896 for interest expense. In its rebuttal testimony, Taylor County revised the pro forma adjustment to remove the short-term interest expense that will be paid off with the long-term RUS debt. Taylor County applied for the RUS loan in November 2022 and was notified that RUS had approved the loan in July 2023. Taylor County has completed all the requirements to receive the funding, but as of the time of the hearing Taylor County had not received the funding. The interest rate on this RUS debt is estimated at 4.0% in this case. Current rates with the RUS have been hovering around 5.0%, and the interest rate as of November 29, 2023 for RUS/FFB is 4.685%. The amount of the note is known and the interest expense is known and measurable, which is the standard for the test-year adjustments. In fact, the Commission found in Case No. 2021-00358 that the interest expense on long-term RUS debt was recoverable even though it occurred years outside the test year.² In that case, the proposed test period was the 12-month period ending December 31, 2019.³ Jackson Purchase included an estimate of interest expense on a RUS loan, which Jackson Purchase revised its revenue requirement in discovery requests and updated interest expense for the RUS loan that closed in November 2021 and eliminated short term interest expense.⁴ The RUS loan closed two years after the close of the test period. The Commission stated:

² See, *In the Matter of: Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment of Rates and Other General Relief*, Case No. 2021-00358, Order (Ky. P.S.C. Apr. 8, 2022).

³ See, *id.* at 3.

⁴ See, *id.* at 14-15.

The Commission notes that the RUS borrowing was a large, foreseeable expense that would have a material impact on the test period in this case. The amounts that were expensed for distribution projects are incidental to the overarching need to borrow the funds to pay off the line of credit agreement with CoBank, and that when the amounts that were estimated in the application became known and measurable, Jackson Purchase presented the information and revised its request. For these reasons, the Commission finds that the interest expense proposed by Jackson Purchase, alongside the reduction in short term interest is reasonable and is accepted.⁵

The interest expense for Taylor County in 2023 was a large foreseeable expense that would have a material impact on the test period in this proceeding. As stated at the hearing, it was not possible for the utility to wait to file the rate case in order to try to get the interest expense into the test period.⁶ However, RUS has approved the loan and Taylor County is simply waiting on the funding and will have to begin paying this interest expense.⁷ The expense occurred less than a year after the end of the test period and was known and measurable. As the Commission found in Case No. 2021-00358, the interest expense included by Taylor County is reasonable and should be accepted. Interest expense is one of the largest expenses incurred by a cooperative such as Taylor County. With interest rates continuing to increase, this is a significant expense for Taylor County.

ii. Taylor County's Right-Of-Way (Vegetation Management) Pro Forma Adjustment Is Reasonable And Should Be Accepted By The Commission

Taylor County's vegetation management program had been virtually non-existent prior to Mr. Jeff Williams assuming the role of CEO. For years, Taylor County tried to

⁵ See, *id.* 15-16.

⁶ Hearing Video Transcript, October 26, 2023 ("H.V.T.") 11:20:30-11:21:26

⁷ *Id.*

keep its rates low, and did not come before the Commission for a rate increase for more than a decade. Vegetation management is an expense that is controllable by Taylor County and when money was needed for other portions of the cooperative business, money was pulled from the vegetation management program. The result of this is now Taylor County must trim more miles of right-of-way per year in order to attempt to get the Company back on a semi-normal schedule. Some circuits had not been cut in many years and more money and time is needed to get these circuits cut. Although Taylor County had not maintained the target levels of vegetation management for many years, in 2023 Taylor County used some of its equity to pay for vegetation management. Complete circuits were cut. Mr. Williams testified at the hearing in this matter regarding the process that was undertaken in order to receive bids on the vegetation management.⁸ In order to keep bids lower, Taylor County did not include “take down” trees. Mr. Williams also did not include herbicide in this round of bids. His intention is to bid out the herbicide at a later date when the circuits have been cut.⁹ Vegetation management assists Taylor County in providing safe and reliable service to its members. It also assists Taylor County in keeping its employees who must work on these circuits safer and decreases the amount of time an outage may last.¹⁰

Vegetation management was one of the major items that Mr. Williams sought to address when he took over as Chief Executive Officer. He knew the importance of having consistent vegetation management practices and testified at the hearing that the vegetation management practice of prior management was not the way he would have done it. The

⁸ H.V.T. 9:26:00-9:46:58.

⁹ *Id.*

¹⁰ *Id.*

fact that rates were able to remain low for so long came at a price. Now Taylor County must cut more miles per year at a time when prices for labor and materials have risen tremendously. This results in the cost per mile to be much more than it would have been had this been done consistently in the past.

iii. Taylor County's Wages and Benefits Pro Forma Adjustment Is Reasonable and Should Be Accepted By The Commission

Taylor County's wages to its employees, especially its line workers, were far below the mid-point of the regional average. Prior to Mr. Williams' arrival, several first-class linemen had left the cooperative due to pay and benefits. Mr. Williams talked to other CEOs at Kentucky cooperatives to help determine a fair amount to increase the wages for Taylor County employees. Mr. Williams also looked at the insurance and retirement plan contributions that were being offered to employees. Prior to Mr. Williams' arrival, employees hired after 2005 did not have family health insurance, only single coverage. They could opt to pay for the family coverage themselves, but the premiums were so high that no employees opted to have it. An obstacle that Mr. Williams faced is that Taylor County's labor force is 70% union, requiring specific rules and guidelines for negotiating or amending contracts. Mr. Williams quickly assessed the need to restructure the employee compensation packages and was required to present information to the union in such a way that it was not a contract negotiation, due to the organized labor practices in place. Also, due to the rules, Mr. Williams could not speak directly to the union employees. He had to deal only with the union representatives and have Taylor County's labor counsel work with the union counsel. For this reason, Mr. Williams could not ask the employees if they would give up their current health insurance plan without getting a revised retirement plan contribution. Mr. Williams was able to switch Taylor County to the health insurance plan

offered by its Generation and Transmission Cooperative, East Kentucky Power Cooperative, Inc., (“EKPC”). By changing to this insurance plan, Taylor County was able to offer each employee family insurance coverage and in turn save Taylor County money from the premiums it previously paid for its employees. Also, prior to this amendment to the union contract, Taylor County paid for 100% of the employees’ health insurance premiums. By offering a package of health insurance and changing the 401k contribution to 16% of regular pay, instead of including overtime pay as was previously being paid, he was able to get the union employees to agree to phase in a percentage of premiums to be paid by the employees, getting to 12% in 2025. Had Taylor County kept the previous health insurance, Taylor County would have paid \$620,514 more than it did in 2022 just for healthcare expense. With the change in healthcare plans, Taylor County has provided a better healthcare plan, with access to family coverage for employees, at a savings to Taylor County. Mr. Williams did not do this without first doing his due diligence and speaking with other CEOs and reviewing the compensation study and other information regarding the compensation packages offered by others in the state.¹¹

C. Taylor County’s Use of 1.85 OTIER Calculation is Reasonable and Should Be Accepted by the Commission

At the hearing in this matter, Mr. Williams testified regarding the importance of the OTIER calculation.¹² The OTIER calculation looks at the operating margins of the Cooperative. Many times, a cooperative, such as Taylor County, may meet its TIER

¹¹ H.V.T. 9:47:00-9:53:58

¹² H.V.T. 11:16:00-11:17:10

obligations due to non-utility income received from other sources, such as interest income and G&T patronage capital allocations.¹³

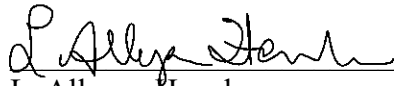
CONCLUSION

Taylor County has proposed fair, just and reasonable rates in this proceeding that are supported by a fully allocated COSS. The COSS supports an increase to the residential class alone and in particular to the residential customer charge. The pro forma adjustments that have been proposed by Taylor County in this proceeding are known and measurable and should be approved by the Commission. Taylor County's management, over the past year, has been able to prioritize issues that needed to be addressed. Taylor County has been able to begin moving its employees' compensation towards the average, get a better health insurance plan for the employees while saving the cooperative money and phasing in an employee contribution to reach 12% in 2025. Receiving the RUS funding will allow Taylor County to pay off short-term debt, which has higher interest rates, which will in turn save the cooperative money. Taylor County is diligently working to improve its financial position, increase employee morale, retain valued employees and improve the safety and reliability of its system. In order to continue to provide safe and reliable service, Taylor County requests the proposed rates, as revised in the rebuttal testimony, be approved by the Commission.

This 29th day of November, 2023.

¹³ *Id.* at 11:17:03-11:17:10.

Respectfully submitted,

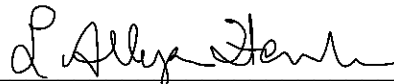


L. Allyson Honaker
Brittany H. Koenig
HONAKER LAW OFFICE, PLLC
1795 Alysheba Way, Suite 6202
Lexington, KY 40509
(859) 368-8803
allyson@hloky.com
brittany@hloky.com

Counsel for Taylor County RECC

CERTIFICATE OF SERVICE

This is to certify that the electronic filing was transmitted to the Commission on November 29, 2023 and that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding. Pursuant to the Commission's July 22, 2021 Order in Case No. 2020-00085 no paper copies of this filing will be made.



Counsel for Taylor County RECC