

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE ELECTRONIC APPLICATION OF	)	
FARMERS RURAL ELECTRIC	)	CASE NO.
COOPERATIVE CORPORATION FOR A	)	2023-00158
GENERAL ADJUSTMENT OF RATES	)	
PURSUANT TO STREAMLINED PROCEDURE	)	
PILOT PROGRAM ESTABLISHED	)	
IN CASE NO. 2018-00407	)	

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FARMERS RURAL ELECTRIC COOPERATIVE  
CORPORATION’S RESPONSE TO THE COMMISSION’S ORDER OF JUNE 30, 2023

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On June 30, 2023, the Kentucky Public Service Commission (“Commission”) issued an Order finding the application filed by Farmers Rural Electric Cooperative Corporation (“Farmers”) on June 16, 2023 to be deficient and directing Farmers to file the information set forth in the Order to cure the deficiencies identified in the Order. For its response to the June 30, 2023 Order Farmers respectfully states as follows:

- 1) The Commission cited Case Number 2018-00407, Appendix A, Section D, 4(a) which states, the application shall include the estimated dates for drawdowns of unadvanced loan funds at test year end and the proposed uses of these funds.<sup>1</sup> The Commission stated that Farmers provided the amounts of drawdowns but failed to include the proposed uses for the funds. Please find the information requested attached as Attachment A-1 in a revised Exhibit 21 with the addition of the information that loan funds are used to replenish expenditures for Plant investments made.

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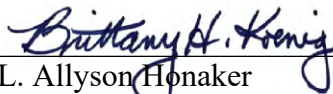
<sup>1</sup> Case No. 2018-00407, *A Review of the Rate Case Procedure for Electric Distribution Cooperatives* (Ky. PSC Dec. 20, 2019) December 20, 2019 Order, Appendix A at 1-2.

2) The Commission cited Case Number 2018-00407, Appendix A, Section D, 4(k) which states that the application shall include the Distribution Cooperative's TIER, OTIER, and debt service coverage ratio, as calculated by RUS, for the test year and the five most recent calendar years, including the data used to calculate each ratio. The Commission stated that Farmers RECC failed to include the data used to calculate each ratio. Please find the information requested attached as Attachment A-2 in a revised Exhibit 31, including a separately uploaded excel spreadsheet.

The Commission's June 30, 2023 stated that the application should not be accepted for filing as a streamlined rate case until the deficiencies are corrected and the missing information is provided. THEREFORE, Farmers submits the attached materials to cure the stated deficiencies and respectfully requests that its application be accepted for filing as a streamlined rate case.

This 3rd day of July, 2023.

Respectfully submitted,



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**CERTIFICATE OF SERVICE**

This is to certify that foregoing electronic filing was transmitted to the Commission on July 3, 2023, that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; and that pursuant to the Commission's July 22, 2021 Order in Case No. 2020-00085, no paper copies of the filing will be made.

  
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*Counsel for Farmers RECC*

**ATTACHMENT A-1  
REVISED EXHIBIT 21**

**Farmers Rural Electric Cooperative Corporation**  
**Case No. 2023-00158**  
**Streamlined Rate Adjustment Procedure Pilot Program**  
**Filing Requirements / Exhibit List**

**Exhibit 21**

**Case No. 2008-00408**  
**Order entered July 24, 2012**  
**Sponsoring Witness: Jennie Phelps**

**Description of Filing Requirement:**

*Drawdowns of Unadvanced Loan Funds*

**Response:**

As of December 31, 2022, Farmers had \$10,920,000 in unadvanced loan funds. A drawdown of \$1,000,000 occurred on February 16, 2023. Another drawdown of \$1,300,000 occurred on March 7, 2023. A third drawdown of \$1,500,000 was released on June 9, 2023. Farmers anticipates making the following drawdowns in 2023:

August - \$1,000,000

September - \$1,000,000

December - \$500,000

The remaining unadvanced loan funds will be drawn down in 2024. Loan funds are used to replenish expenditures for Plant investments made.

**Case No. 2023-00158**  
**Application - Exhibit 21**  
*No Attachment*

ATTACHMENT A-2  
REVISED EXHIBIT 31  
ADDITIONAL ATTACHMENTS ARE  
EXCEL SPREADSHEETS AND UPLOADED  
SEPARATELY

**Farmers Rural Electric Cooperative Corporation**  
**Case No. 2023-00158**  
**Streamlined Rate Adjustment Procedure Pilot Program**  
**Filing Requirements / Exhibit List**

**Exhibit 31**

**Case No. 2018-00407**

**Orders entered December 11, 2018, March 26, 2019 and December 20, 2019**  
**Sponsoring Witness: Jennie Phelps**

**Description of Filing Requirement:**

*The Distribution Cooperative's TIER, OTIER, and debt service coverage ratio, as calculated by the RUS, for the test year and the five most recent calendar years, including the data used to calculate each ratio.*

**Response:**

**FARMERS RECC Ratios**

**TIER (Times Interest Earned Ratio)**

<u>TIER</u>		<u>TIER (2 of 3 Yr Hi Avg)</u>	
2017	2.00	2017	2.55
2018	2.64	2018	2.66
2019	2.33	2019	2.48
2020	2.27	2020	2.48
2021	2.63	2021	2.48
2022	2.27	2022	2.45

**Case No. 2023-00158**  
**Application - Exhibit 31**

*Includes Attachment 4 pages & Excel Spreadsheet Uploaded Separately*

**Farmers Rural Electric Cooperative Corporation**  
**Case No. 2023-00158**  
**Streamlined Rate Adjustment Procedure Pilot Program**  
**Filing Requirements / Exhibit List**

**OTIER (Operating Times Interest Earned Ratio)**

OTIER		OTIER (2 of 3 Yr Hi Avg)	
2017	1.25	2017	1.21
2018	1.59	2018	1.59
2019	1.23	2019	1.42
2020	1.64	2020	1.62
2021	1.49	2021	1.56
2022	1.01	2022	1.56

**MDSC (Modified Debt Service Coverage)**

Modified DSC		MDSC (2 of 3 Yr Hi Avg)	
2017	1.31	2017	1.28
2018	1.45	2018	1.38
2019	1.48	2019	1.47
2020	1.63	2020	1.56
2021	1.54	2021	1.59
2022	1.60	2022	1.62



CFC KEY RATIO TREND ANALYSIS FOR 5 YEARS ENDING December 31, 2022		
RATIO NAME	FORMULATION	
FINANCIAL (RATIOS 6-32)		
<u><b>RATIO 6</b></u> TIER	$\frac{A16b+A29b+[(L \text{ Tot.} + C52) - (2\%C36)]/3}{A16b+[(L \text{ Tot.} + C52) - (2\%C36)]/3}^{**}$ <p>** Include only if Long Term Leases are greater than 2% of Total Margins &amp; Equities.</p>	A16b Interest on Long-Term Debt A29b Patronage Capital or Margins C36 Total Margins & Equity C52 Current Maturities Capital Leases L Tot. Total Long-Term Leases
<u><b>RATIO 7</b></u> TIER (2 of 3 year High Average)	Average of the high two TIER ratios of the last three years.	TIER - 2020 TIER - 2021 TIER - 2022
<u><b>RATIO 8</b></u> OTIER	$\frac{A16b+A21b+I2c(a) + [(L \text{ Tot.} + C52) - (2\% C36)]/3}{A16b+[(L \text{ Tot.} + C52) - (2\%C36)]/3}^{**}$ <p>** Include only if Long Term Leases are greater than 2% of Total Margins &amp; Equities.</p>	A16b Interest on Long-Term Debt A21b Patronage Capital & Operating Margins I2c(a) Total Cash Received (This Year) L Tot. Total Long-Term Leases C36 Total Margins & Equity C52 Current Maturities Capital Leases
<u><b>RATIO 9</b></u> OTIER (2 of 3 year High Average)	Average of the high two OTIER ratios of the last three years.	OTIER - 2020 OTIER - 2021 OTIER - 2022

**CFC KEY RATIO TREND ANALYSIS  
FOR 5 YEARS ENDING  
December 31, 2022**

RATIO NAME	FORMULATION	
<p><b>RATIO 10</b> <b>MODIFIED DSC (MDSC)*</b></p>	$\frac{A13b+A16b+A21b+A22b+[Pat\ Cap\ (Cash)]* + [(L\ Tot.+C52) - (2\% C36)]/3}{Total\ Billed\ Debt\ Service + [(L\ Tot.+C52) - (2\% C36)]/3}$ <p>* Pat.Cap. (Cash) Formula: [(20xx - 1(C8) + A26b + A27b) - 20xx(C8)] 20xx = Latest historical year (example 2022) 20xx-1 = Prior year (example 2021)</p> <p>** Include only if Long Term Leases are greater than 2% of Total Margins &amp; Equities.</p>	<p>A13b Depreciation &amp; Amortization Expense A16b Interest on Long-Term Debt A21b Patronage Capital &amp; Operating Margins A22b Non Operating Margins - Interest C8 Invest. in Assoc. Org. - Patronage Capital A26b Generation &amp; Transmission Capital Credits A27b Other Capital Credits &amp; Patronage Dividends L Tot. Total Long-Term Leases C36 Total Margins &amp; Equities C52 Current Maturities Capital Leases Total Billed Debt Service</p>
<p><b>RATIO 11</b> <b>MDSC (2 of 3 year High Average)</b></p>	<p align="center">Average of the high two MDSC ratios of the last three years.</p>	<p>MDSC - 2020 MDSC - 2021 MDSC - 2022</p>
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## FINANCIAL RATIOS

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### **Ratio 6 TIER (Times Interest Earned Ratio)**

TIER is a measurement of the system's annual ability to earn margins sufficient to cover the interest expense on long-term debt. TIER is a primary indicator of a utility's financial health to lending institutions. A TIER of greater than 1.0 indicates that a system is generating revenues sufficient to cover its long-term interest expense 1.0 plus times. A TIER of 1.0 indicates payment of interest with no margins left for financing new projects. A TIER of less than 1.0 indicates a system could not pay its interest from margins earned after deducting expenses before interest. A negative TIER indicates borrowed funds are needed to pay all of the interest and some part of operating expenses for that year. A very high TIER value indicates that the system has very little long-term debt resulting in low long-term interest costs.

The RUS loan contract generally requires a borrower maintain a specified TIER ratio. The CFC loan contract no longer has a TIER requirement. CFC requires a modified debt service coverage ratio.

### **Ratio 7 TIER (2 of 3-year High Average)**

An extension of TIER, generally found in an RUS loan contract. The requirement is generally to achieve a specified average for the two highest TIER ratios of the three most current years.

### **Ratio 8 Operating TIER (OTIER)**

A measure of the cooperative's ability to generate sufficient revenues from electric operations to repay the interest on its long-term debt.

### **Ratio 9 Operating TIER (2 of 3-year High Average)**

This ratio is an extension of OTIER. The requirement is generally to achieve a specified average for the two highest OTIER ratios of the three most current years. A variation of this ratio may be found in an RUS loan contract.

A low ratio could indicate the cooperative is losing money on its electric operations. A high ratio could mean the cooperative has little long-term debt resulting in low long-term interest costs.

### **Ratio 10 MDSC (Modified Debt Service Coverage)**

Like DSC, MDSC is a measurement of a system's ability to generate sufficient operating funds to cover its cash requirements, but adjusted to eliminate non-cash amounts that are included in margins—such as G&T capital credit allocations to a distribution cooperative—for the true cash impact of non-operating margins of its long-term total debt service (principal and interest) on an annual basis. The non-cash expense of depreciation and amortization expenses is taken into consideration as a cash generator. A ratio value of 1.0 indicates the system generated only enough cash to cover its principal and interest payments (total debt service) on its long-term debt for the year. The CFC loan contract requires a MDSC of 1.35 for the best two of the last three years.

**Ratio 11 MDSC (Modified Debt Service Coverage) (2 of 3-year High Average)**

An extension of MDSC, generally found in a CFC loan contract. The requirement is to achieve a specified average value using the two highest MDSC ratios of the three most current years. The average value is generally used to determine loan covenant compliance requirements as well as to determine potential eligibility for long-term interest rate discounts associated with some CFC long-term loans.