

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE ELECTRONIC APPLICATION OF)	
FLEMING-MASON ENERGY COOPERATIVE)	CASE NO. 2023-000223
INC. FOR A GENERAL ADJUSTMENT)	
OF RATES)	

REBUTTAL TESTIMONY OF
JOHN WOLFRAM
PRINCIPAL, CATALYST CONSULTING LLC
ON BEHALF OF
FLEMING-MASON ENERGY COOPERATIVE, INC.

Filed: December 22, 2023

**REBUTTAL TESTIMONY
OF
JOHN WOLFRAM**

I. INTRODUCTION

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

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

4 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

5 A. I am testifying on behalf of Fleming-Mason Energy Cooperative, Inc. (“Fleming-
6 Mason”).

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

9 A. Yes.

10 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

11 A. The purpose of my testimony is to respond to the recommendations of Witness Mr.
12 Greg R. Meyer on behalf of the Office of the Attorney General of the
13 Commonwealth of Kentucky (“AG”), as provided in Mr. Meyer’s direct testimony
14 (“Meyer Direct”) dated November , 2023.

15 **Q. DID THE AG MAKE RECOMMENDATIONS REGARDING FLEMING-
16 MASON’S OVERALL REVENUE REQUIREMENT?**

17 A. Yes. The AG made recommendations regarding several different items affecting
18 the proposed revenue requirement in this case. I will respond to each item and
19 recommendation in turn.

20

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

3 A. The AG recommended recovery of rate case expenses over a five-year period based
4 on the timing of Fleming-Mason's historical rate filings (Meyer Direct, page 7 line
5 5). Mr. Meyer had no issues with the total rate case expense being sought for
6 recovery (Meyer Direct, page 6 line 7).

7 **Q. HOW DO YOU RESPOND?**

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

15 **Q. WHAT DID THE AG RECOMMEND REGARDING RATE SCHEDULE**
16 **REVENUES?**

17 A. Mr. Meyer noted that the values for Base Rate Revenues on Exhibit JW-2
18 Reference Schedule 1.06 and Exhibit JW-9 do not match, and that correcting this
19 on the former worksheet in line creases the revenue adjustment by approximately
20 \$16,548 (Meyer Direct, page 8, line 19).

21 **Q. HOW DO YOU RESPOND?**

22 A. Mr. Meyer is correct. Fleming-Mason inadvertently neglected to update the
23 amounts on Reference Schedule 1.06 to match the final amounts on Exhibit JW-9.

1 The revision proposed by Mr. Meyer here is reasonable and should be adopted. I
2 address the numerical effects of this revision later in my testimony.

3 **Q. WHAT DID THE AG RECOMMEND REGARDING REGULAR TIME**
4 **WAGES AND SALARIES?**

5 A. The AG asserts that the adjustment for regular time wages and salaries should be
6 based on 49 employees instead of 51 employees, claiming that Fleming-Mason did
7 not provide any justification for the increase from 49 to 51 employees (Meyer
8 Direct page 9 lines 14-18). Mr. Meyer did not take issue with the pro forma test
9 year wage rate that Fleming-Mason used to calculate the adjustment (Meyer Direct
10 page 9 line 11).

11 **Q. HOW DO YOU RESPOND?**

12 A. I disagree with this recommendation. At the end of 2022, Fleming-Mason had 49
13 employees. During 2023, Fleming-Mason hired 5 employees, but also in 2023,
14 Fleming-Mason lost 2 additional employees. Fleming-Mason is working now to
15 hire for key positions such as Engineering and IT support. In 2022, Fleming-Mason
16 had 6 employees retire with a combined 179 years of experience. The cooperative
17 ended 2021 with 50 employees and would have ended 2022 with 51 employees had
18 it not been for the late retirements. There has been a lot of movement in the
19 employee numbers and Fleming-Mason is working to return to the 51 headcount
20 threshold. For these reasons it is appropriate to base the regular time wages and
21 salaries adjustment on 51 employees. The Commission should not accept the AG's
22 recommendation.

1 **Q. WHAT DID THE AG RECOMMEND REGARDING OVERTIME WAGES**
2 **AND SALARIES?**

3 A. The AG claims that the use of the five-year average of overtime hours in place of
4 test year overtime hours is unsupported and recommends using the test year
5 overtime hours of 7,063 to calculate this adjustment (Meyer Direct page 10 line 11
6 to page 11 line 2).

7 **Q. HOW DO YOU RESPOND?**

8 A. I disagree with this recommendation. The five-year average is a simple average of
9 the amounts for the last five years. The cooperative provides the historical data as
10 follows:

11	<u>Year</u>	<u># of Overtime Hours</u>
12	2022	7,063.0
13	2021	9,886.5
14	2020	6,968.5
15	2019	7,281.0
16	2018	8,067.0

17
18 Thus it is reasonable to accept the adjustment as filed by Fleming-Mason; the
19 Commission should not accept this recommendation by the AG.

20 **Q. WHAT DID THE AG RECOMMEND REGARDING HEALTH CARE**
21 **COSTS?**

22 A. First, Mr. Meyer claimed that Fleming-Mason's pro forma adjustment for health
23 care costs is based off of an illogical calculation of the effects of the 9 percent
24 increase in health care premiums (Meyer Direct page 12). Second, the AG
25 disagrees with the 9 percent increase in health care premiums, preparing its own
26 analysis using historical data and publicly available data from
27 PricewaterhouseCoopers' ("PwC") (Meyer Direct pages 12-13). Third, Mr. Meyer

1 notes that Fleming-Mason did not appear to capitalize a portion of these costs in
2 the pro forma adjustment, which should be done since the costs are payroll-related
3 (Meyer Direct page 14 line 17).

4 **Q. HOW DO YOU RESPOND TO THE FIRST PART OF THE AG'S CLAIM**
5 **ON HEALTH CARE COSTS REGARDING THE LOGIC OF THE**
6 **PROPOSED CALCULATION?**

7 A. Mr. Meyer is correct; there is a mistake in the calculation. The correction to the
8 calculation as outlined in Meyer Direct page 12 is appropriate. I address this further
9 later in my testimony.

10 **Q. HOW DO YOU RESPOND TO THE SECOND PART OF THE AG'S**
11 **CLAIM ON HEALTH CARE COSTS REGARDING THE 9 PERCENT**
12 **INCREASE?**

13 A. I disagree with the AG's position on this point. While Fleming-Mason uses an
14 increase of 9 percent for health care premiums in its adjustment, the AG notes that
15 the five year average of premium increases is lower than 5 percent. The AG further
16 provides some information from PwC that speculates on health care premium
17 increases in 2023 and 2024 which are also lower than 9 percent. However,
18 Fleming-Mason based the adjustment on actual 2023 premiums, not on any
19 historical trends or speculation of future growth rates. The as-filed adjustment
20 represents a known and measurable change to the test year amounts. It is known
21 and therefore meets the Commission's long-standing "known and measurable"
22 standard for pro forma adjustments.

1 [Furthermore, even if one reviewed the historic health care premium data
2 provided by Fleming-Mason in response to Staff Data Request 1-6 and tabulated
3 by the AG in Table GRM-4 in Meyer Direct page 13, it is clear that the premiums
4 for every category are increasing each year in a non-linear fashion. Even if one set
5 aside for a moment the fact that the adjustment as proposed is known and
6 measurable, it would be inappropriate to ignore this accelerating growth in
7 premiums and instead apply a linear historic average which ignores the escalation
8 of these costs over time. This flaw is moot, however, since the adjustment as filed
9 is based on actual premium increases for 2023.]

10 Fleming-Mason's health insurance premiums will increase even more in
11 2024, according to information provided to Fleming-Mason from the provider in
12 the fall of 2023, but because those increases are too far out in time beyond the end
13 of the test year, they are not included here. For these reasons, the Commission
14 should reject this recommendation by the AG and approve the 9 percent increase
15 as a known and measurable change to test year expenses, as proposed by Fleming-
16 Mason.

17 **Q. HOW DO YOU RESPOND TO THE THIRD PART OF THE AG'S CLAIM**
18 **ON HEALTH CARE COSTS REGARDING CAPITALIZING PART OF**
19 **THE AMOUNTS?**

20 A. Mr. Meyer is correct that health insurance premium costs are payroll-related and as
21 such a portion of these amounts should be capitalized. I address this further later
22 in my testimony.

23 **Q. WHAT DID THE AG RECOMMEND REGARDING OTIER?**

1 A. The AG recommends an OTIER ratio of 1.50 instead of the 1.85 proposed by
2 Fleming-Mason (Meyer Direct page 19 lines 10-16).

3 **Q. HOW DO YOU RESPOND?**

4 A. I disagree very strongly with this recommendation, for several reasons.

5 First, the AG states that Fleming-Mason's lenders require an OTIER
6 coverage ratio less than 1.85. This is correct but does not justify awarding Fleming-
7 Mason an OTIER of less than 1.85. The Commission has found that it is reasonable
8 to set the target metric higher than the minimums required by cooperative lenders,
9 in part because of the importance of unforeseen expenses. Cooperative margins are
10 not solely related to paying off debt; they also allow the cooperative to manage
11 volatility in the wholesale purchased power bills and unforeseen expenses like
12 storm restoration or other O&M costs subject to rapid inflationary pressures. This
13 is why the Commission should not set OTIER or TIER close to the minimum levels
14 required by the lenders; doing so would require the cooperative to operate on the
15 razor's edge.

16 Second, the AG argues that if the OTIER of 1.85 contributes to profits that
17 are returned via capital credits over a very long lag period, that this is somehow
18 "harmful" to the members. However, this is how capital credits work, regardless
19 of what the drivers are. The AG states that most members that he is aware of today
20 are not willing to pay for a return several years into the future. Fleming-Mason
21 does not share this view as its members have received capital credits before from
22 prior periods without complaint. The cooperative is still a not-for-profit enterprise
23 with no shareholder interest, and lag associated with capital credits is the norm for

1 cooperatives all across the country, including East Kentucky Power Cooperative,
2 so this argument is without merit. [The AG also questions whether Fleming-
3 Mason's industrial customers are eligible for capital credits from any profits
4 generated by Fleming-Mason. They are eligible for general retirements of capital
5 credits, with the temporary exception of one industrial customer who does not
6 receive capital credits for five years due to the terms and conditions of the
7 Economic Development Rider in their purchased power agreement.]

8 Third, in Case No. 2021-00358, the Commission explicitly rejected the
9 AG's recommendation to set Jackson Purchase's TIER at 1.50. The Commission
10 cited the adverse effect on the cooperative's cash working capital, which could
11 impair Jackson Purchase's ability to have sufficient cash flow to respond to
12 unforeseen expenses. Fleming-Mason acknowledges that the two cases are not
13 identical, and that TIER and OTIER also differ, but the conceptual basis for the
14 Commission decision in that case applies in the instant case as well, since an OTIER
15 of 1.50 would have same adverse effect on Fleming-Mason that the TIER of 1.50
16 would have had on Jackson Purchase – impairment of cash working capital and
17 cash flow for unforeseen expenses.

18 Finally, the AG's recommendation of 1.50 is arbitrary. It is not supported
19 by any analysis, comparative review of peers, or formulaic determination. Even if
20 one were to determine that the Commission's historic consideration of 1.85 OTIER
21 or 2.00 TIER were inappropriate here – a determination for which there is no
22 evidence in this docket – then there is still no reason to conclude that an OTIER of
23 1.50 is the appropriate value for ratemaking purposes. There is no evidence in the

1 record or in Commission precedent to support the reasonableness of applying a 1.50
2 OTIER for Fleming-Mason.

3 For these reasons, it is not reasonable to make the AG’s proposed OTIER
4 adjustment and the Commission should not accept this recommendation.

5 **Q. DID FLEMING-MASON NOTE ANY ITEMS IN ITS RESPONSES TO**
6 **DISCOVERY THAT WOULD IMPACT THE REVENUE**
7 **REQUIREMENT, COST OF SERVICE STUDY (“COSS”), OR**
8 **PROPOSED RATES AS FILED?**

9 A. Yes. Fleming-Mason has revisions stemming from its response to AG 1-7, PSC 2-
10 3, and PSC 3-5.

11 **Q. PLEASE EXPLAIN THE REVISIONS STEMMING FROM AG 1-7.**

12 A. In its response to AG 1-7, Fleming-Mason noted a correction that was necessary in
13 Exhibit JW-2, Reference Schedules 1.01 and 1.02 for the Fuel Adjustment Clause
14 (“FAC”) and Environmental Surcharge (“ES”) respectively. Fleming-Mason
15 corrected a link on each worksheet, and also identified a double-counting of certain
16 FAC and ES revenues in the filed calculations. Updated exhibits were provided
17 with the response, and the same updates are included here, as I discuss at the end
18 of my rebuttal testimony.

19 **Q. PLEASE EXPLAIN THE REVISIONS STEMMING FROM PSC 2-3.**

20 A. In PSC 2-3b, Staff asked about how for the Time of Day (“TOD”) and Inclining
21 Block (“IB”) rate that, considering both have a positive return on rate base,
22 increasing the customer charge and decreasing the energy charges benefits both
23 Fleming-Mason Energy and the customers. Fleming-Mason responded that because

1 the proposed rate changes are revenue neutral for both TOD and IB members, the
2 fact that the return on rate base is positive is not relevant, because the return on rate
3 base will not change, and also that as a result of considering this response, Fleming-
4 Mason was reviewing the proposed rates for the IB rate and the TOD rate.

5 Upon further consideration, because the rates of return for both the IB and
6 TOD rates are positive, Fleming-Mason withdraws its request to revise the IB and
7 TOD rates, leaving the current customer charge and energy charges in place. There
8 will still be no billing impact on each class in total, which as noted have positive
9 rates of return. There is also no impact on the overall proposed increase or the
10 proposed increases to the residential class since the original changes for the IB and
11 TOD classes were designed to be revenue neutral. This revision will avoid any
12 unintended consequences, including any potential incentives for rate shifting, and
13 will simplify matters overall. This revision is reflected in the exhibits as discussed
14 at the end of my rebuttal testimony.

15 **Q. PLEASE EXPLAIN THE REVISIONS STEMMING FROM PSC 3-5.**

16 A. In PSC 3-5, Staff asked for support for the Right-Of-Way (“ROW”) adjustment in
17 Exhibit JW-2, Reference Schedule 1.05. In the response Fleming-Mason noted that
18 the adjustment reflected the change in trimming costs (cost-per-mile) but should
19 also have adjusted the number of miles trimmed, by using 2023 actual mileage
20 instead of an average of historical mileage, since the 2023 mileage is known. This
21 revision is reflected in the exhibits as discussed at the end of my rebuttal testimony.

1 **Q. BASED ON THE RESPONSES DESCRIBED HEREIN, AND THOSE**
2 **NOTED IN DISCOVERY, WHAT IS THE REVISED REVENUE**
3 **DEFICIENCY FOR FLEMING-MASON IN THIS CASE?**

4 A. The revenue deficiency changes from the originally filed \$2,755,741 amount to
5 \$1,943,724, or a change of (\$812,017).

6 **Q. DO THESE REVISIONS AFFECT THE COSS?**

7 A. Yes, but the revised pro forma adjustments have a very small effect on the relative
8 results of the COSS. The revisions change the cost-based rates by small increments
9 and do not change the relative assessment of overall rates of return for Fleming-
10 Mason's rate classes; the residential rates still have negative rates of return on rate
11 base and are still being significantly subsidized by the non-residential rate classes.
12 The cost based customer charge for Residential Rate RPS is \$22.31 per month,
13 compared to the actual current charge of \$15.57 per month.

14 **Q. HOW DO THE UPDATES TO THE REVENUE DEFICIENCY AND COSS**
15 **TRANSLATE INTO REVISED RATES?**

16 A. Because the fundamental results of the COSS do not change, the allocation of the
17 proposed increase does not change; the proposed per-unit charges change slightly
18 in order to yield the target revenue increase. The proposed residential customer
19 charge of \$19.50 does not change. The proposed energy charge for residential
20 changes from \$0.08831 per kWh to 0.08575 per kWh.

21 **Q. HOW DO YOU SUMMARIZED THE REVISED REQUEST OF**
22 **FLEMING-MASON AT THIS JUNCTURE OF THE CASE?**

1 A. Based on the latest information, Fleming-Mason is requesting an overall increase
2 of \$1,941,487 or 1.8%. (This is \$2,237 short of the \$1,943,724 revenue
3 deficiency due to rate rounding.) Fleming-Mason is proposing to increase the
4 Residential Rate RSP customer charge from \$15.57 per month to \$19.50 per
5 month and the energy charge from \$0.08330 to \$0.08575 per kWh, which will
6 increase the average residential customer's monthly bill by \$6.55 or 5.1%. This
7 request is lower than that originally filed by Fleming-Mason but is required in
8 order for the cooperative to meet the financial target of 1.85 OTIER for the period
9 of time when the proposed rates will be put in effect.

10 **Q. DID YOU UPDATE THE FILED EXHIBITS TO REFLECT FLEMING-**
11 **MASON'S MOST RECENT POSITION, BASED ON THE RESPONSES**
12 **DESCRIBED HEREIN?**

13 A. Yes. Updated files for Exhibit JW-2 (revenue requirement with pro forma
14 adjustments), Exhibits JW-3 through JW-8 (COSS updated for pro forma
15 adjustment revisions) and Exhibit JW-9 (present and proposed rates for revised
16 revenue deficiency) are provided electronically with this rebuttal testimony. The
17 exhibits contain revisions reflecting all of the items I described herein. Revised
18 fields are noted in colored highlight. The Commission should rely on the updated
19 exhibits in rendering its decision on Fleming-Mason's application in this case.

20 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

21 A. Yes, it does.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

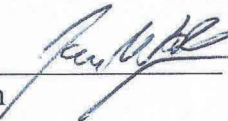
In the Matter of:

THE ELECTRONIC APPLICATION OF)
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INC. FOR A GENERAL ADJUSTMENT)
OF RATES)


VERIFICATION OF JOHN WOLFRAM

COMMONWEALTH OF KENTUCKY)
COUNTY OF JEFFERSON)

John Wolfram, being duly sworn, states that he has supervised the preparation of 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 

The foregoing Verification was signed, acknowledged and sworn to before me this 13 day of December 2023, by John Wolfram.


Commission expiration: _____

DALAL BROOKS
Notary Public - State at Large
Kentucky
My Commission Expires Oct. 23, 2027
Notary ID KYNP81483