**COMMONWEALTH OF KENTUCKY**

**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

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| **THE ELECTRONIC APPLICATION OF** | **)** | |
| **JACKSON PURCHASE ENEGRY CORPORATION** | **)** | **CASE NO.** |
| **FOR A GENERAL ADJUSTMENT OF RATES** | **)** | **2024-00085** |

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**REBUTTAL TESTIMONY OF**

**JOHN WOLFRAM**

**PRINCIPAL, CATALYST CONSULTING LLC**

**ON BEHALF OF**

**JACKSON PURCHASE ENERGY CORPORATION**

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**Filed: August 21, 2024**

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**VERIFICATION OF JOHN WOLFRAM**

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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

The foregoing Verification was signed, acknowledged and sworn to before me this 2 day of ~~July~~ Aug. 2024, by John Wolfram.

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

Commission expiration:

## 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 Jackson Purchase Energy Corporation ("Jackson Purchase").

**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. Greg R. Meyer on behalf of the Office of the Attorney General of the Commonwealth of Kentucky ("AG"), as provided in Mr. Meyer's direct testimony ("Meyer Direct").

**Q. DID THE AG MAKE RECOMMENDATIONS REGARDING JACKSON PURCHASE'S OVERALL REVENUE REQUIREMENT?**

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

**Q. WHAT DID THE AG RECOMMEND REGARDING DONATIONS AND PROMOTIONAL ADVERTISEMENTS AND DUES?**

A. The AG notes that Jackson Purchase acknowledged an error in the proposed pro forma adjustment for these expenses (Meyer Direct, page 6 line 7) that increased the revenue requirement by $911,331.

**Q. HOW DO YOU RESPOND?**

A. Mr. Meyer is correct. Jackson Purchase inadvertently reversed the sign of this adjustment in Exhibit JW-2, Reference Schedule 1.05. Jackson Purchase acknowledged this in its response to the Attorney General's Second Request for Information, Item 30. I address the numerical effects of this revision later in my testimony.

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

A. The AG claimed that there is no reasonable basis to believe that Jackson Purchase is capable of fully trimming and treating the ROW in accordance with its policy of a five-year cycle (Meyer Direct, page 7 line 14 and page 9 line 12). The AG recommended that the ROW target be set at the maximum actual mileage recorded over the past 10 years, with a 10% increase to account for deferred ROW maintenance (Meyer Direct, page 9 line 16). The AG further recommended Jackson Purchase be subject to a one-way ROW expense tracker mechanism with components for pooling unspent money for future trimming but with no retroactive recovery.

**Q. HOW DO YOU RESPOND?**

A. I disagree with these recommendations, for several reasons.

First, the AG's recommendation to use the historical ROW maintenance cost for setting rates ensures that Jackson Purchase will never catch up to the target trimming cycle. The AG's belief that Jackson Purchase does not have the capacity to trim enough mileage per year to get back on target will be true *if* Jackson Purchase cannot afford the costs of trimming the target mileage per year. The historical ROW maintenance costs are largely aligned with the historical achieved TIER values. Over the recent years, Jackson Purchase has had insufficient margins to permit the cooperative to manage the ROW to the target cycle. Setting rates based on a history in which Jackson Purchase fell short of the ROW maintenance target will ensure that in the future, Jackson Purchase will continue to fall short of the ROW maintenance target.

Second, in the last case the Commission noted the importance that Jackson Purchase "have sufficient financial resources to properly implement its vegetation management program to provide adequate and reliable electric service"[1] and accepted Jackson Purchase's ROW adjustment, which was based on then-current costs applied to target mileage for maintenance. The Commission should do the same here instead of altering the target to reflect historical limitations.

Third, the proposed ROW expense tracker mechanism constitutes single-issue ratemaking and should not be approved. Rather, the costs for ROW maintenance should be included in base rates. Trackers that are not established by

[1] *Id.*, p. 11.

statute or regulation are relatively uncommon in the Commonwealth. Typically, trackers are appropriate (a) when the underlying costs are large and quite volatile, so it is difficult to predict their expected level accurately over time, and (b) when the underlying costs are largely beyond the utility's control, since they reflect, for example, market conditions in the wholesale fuel and power markets that individual utilities do not choose or influence. These criteria are not met here because the ROW maintenance costs, while large, are not particularly volatile – they are simply increasing. The AG suggests that Jackson Purchase should continue efforts to manage ROW costs, which implies that the costs are not largely beyond the utility's control. If ROW management costs were to continue to increase despite close management, the recommended "one way" tracker would not meet Jackson Purchase's needs, because it does not accommodate costs that continue to trend upwards. In the instant case there is no evidence that the base rate recovery of ROW maintenance costs should be abandoned in favor of a tracker, which itself would likely increase costs due to the complexity of administration, accounting and billing associated with such a mechanism.

For these reasons, and those provided by the other witnesses, the Commission should reject the AG's recommendations (a) to limit the ROW costs to the historical amount and (b) to adopt a one-way ROW expense tracker, and instead should accept Jackson Purchase's adjustment to ROW maintenance expense as filed.

**Q. WHAT DID THE AG RECOMMEND REGARDING RATE CASE EXPENSES?**

A. Mr. Meyer had no issues with the total rate case expense being sought for recovery in this case (Meyer Direct, page 12 line 8). However, the AG recommends that the total remaining rate case expense from the prior rate case should be eliminated (Meyer Direct, page 12 line 10).

**Q. HOW DO YOU RESPOND?**

A. I disagree with this recommendation. The Commission approved the rate case expense from the prior rate case in their Order in that docket.[2] Specifically, they found that "based on the summaries provided throughout the pendency of this case and a review of the supporting invoices, the amount detailed in Jackson Purchase's March 18, 2022 filing fairly represents the total costs to prepare and fully litigate this proceeding" and increased the revenue requirement in that case to reflect the amortization of that amount over three years. There is no evidence in this proceeding that alters or contravenes that finding. The fact that the three years have not yet fully transpired and that the authorized costs have not yet been fully recovered does not nullify the authorization of cost recovery from the Commission's last order. The AG provides no argument or evidence for the Commission to reverse its original authorization of that cost recovery. For these reasons, the Commission should reject the AG's recommendation. Instead, the Commission should include the unrecovered balance of last rate case expense in the total rate case expense amount authorized in this case. It is true that in the

[2] In the Matter of: *Electronic Application Of Jackson Purchase Energy Corporation For A General Adjustment Of Rates And Other General Relief,* Order dated April 8, 2022, p.16.

original filing, Jackson Purchase calculated the prior rate case balance based on the proposed effective date of the new rates. Now that the rates have been suspended beyond that date, Jackson Purchase calculates that the prior rate case expense balance will be $29,393 (balance of $52,954 as of 06/30/24, plus 4 months of amortization of $5,890.26/month) as of November 1, 2024, which is the date that the suspension of the proposed rates ends.

**Q. WHAT DID THE AG RECOMMEND REGARDING WAGES AND SALARIES EXPENSE ?**

A. The AG recommends that the cost of four vacant positions should be removed, lowering the revenue requirement (after adjusting out the capitalized portion) by $320,030 (Meyer Direct, page 15 line 4). The AG believes these positions are unjustified because Jackson Purchase currently employees 66 full time employees ("FTEs") instead of the target 70 FTEs. The AG also cites Mr. Grissom's comment that "among companies its size, Jackson Purchase ranks 65th lowest out of 67 companies for number of full-time employees, according to 2022 KRTA data" as support for the view that the vacant positions need not be filled. (Meyer Direct, page 16 line 20).

**Q. HOW DO YOU RESPOND?**

A. I disagree with this recommendation. First, only one of the positions listed should be described as "new" (the Apprentice Line Technician), as described in the rebuttal testimony of company staff. The other three positions listed are open or vacant because of employee resignations or shifts within the organization. Thus the recommended removal is overstated. Even if one did remove the expense of the position that is "new" – which Jackson Purchase does not support since the position is needed -- that would reduce the expense by $76,183 ($105,152.07 * 72.45%), not by the larger amount stated by the AG.

Second, Mr. Grissom's comment is not a justification of why Jackson Purchase headcount is appropriate; to the contrary, the comment highlights the problem: Jackson Purchase is understaffed. Jackson Purchase has kept staffing at the lowest level possible to maintain safe and reliable service in an attempt to maintain the required financial metrics, but this level is a minimum, not a target. Jackson Purchase has not had the financial wherewithal over the last few years to afford the target headcount of 70 FTEs. This is supported by the fact that Jackson Purchase has filed three rate revisions since 2019. Jackson Purchase ranks 65/67 on headcount per the KRTA, but this should not be mistaken for a desirable end; it is undesirable because it is extreme. The Commission should rectify this by rejecting the AG recommendation and awarding Jackson Purchase sufficient revenue to afford full staffing.

**Q. WHAT DID THE AG RECOMMEND REGARDING OVERTIME WAGES?**

A. The AG recommends that overtime costs should be set using the five-year average of overtime hours instead of test period overtime hours (Meyer Direct, page 17 line 20). The reasoning behind this is that test period overtime cost exceeds every year in the past five calendar years (Meyer Direct, page 17 line 1).

**Q. HOW DO YOU RESPOND?**

A. I disagree with this recommendation.

First, there is no evidence that the test year overtime costs are unreasonable; they are simply increasing relative to historical amounts.

Second, the AG recommendation for overtime costs does not align with the AG recommendation on Wages and Salaries. If Jackson Purchase is not awarded the funds for 4 currently vacant positions, and must continue to operate with only 66 FTEs, then overtime costs should be expected to continue, not decline. It is not reasonable to expect Jackson Purchase to avoid hiring more people *and* reduce overtime expenses, all else being equal. Jackson Purchase acknowledges that if it could afford to fill the 4 currently vacant positions, it might be possible to reduce total overtime hours—but even that would not be one-for-one due to the nature of the positions. Because there is no reason to do otherwise, in this instance the Commission should rely on the test period overtime costs and hours as the basis for setting the revenue requirement.

**Q. WHAT DID THE AG RECOMMEND REGARDING INCENTIVE COMPENSATION?**

A. The AG recommended that the cost of incentive compensation for Jackson Purchase's CEO be removed from the revenue requirement, because Jackson Purchase does not have a formal policy regarding incentive compensation (Meyer Direct, page 18 line 18 and page 19 line 4 ).

**Q. HOW DO YOU RESPOND?**

A. I disagree with this recommendation. The incentive compensation to the CEO should not be excluded from the revenue requirement. This is a reasonable component of overall compensation, regardless of whether or not Jackson Purchase has a formal policy in place for this. Additionally, the employment contract for the CEO requires incentive compensation yearly. The Commission has not excluded incentive compensation in previous Jackson Purchase rate orders. The AG did not provide evidence or even claim that the compensation was unreasonable or inappropriate. For these reasons, the Commission should not accept the AG recommendation.

**Q. WHAT DID THE AG RECOMMEND REGARDING EMPLOYEE AWARDS?**

A. The AG recommended that $3,269 of employee awards should be removed from the revenue requirement (Meyer Direct, page 20 line 6).

**Q. HOW DO YOU RESPOND?**

A. I disagree with this recommendation. The service awards need not be excluded from the revenue requirement. This is a reasonable component of overall compensation, consistent with Jackson Purchase's policy on this.

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

A. The AG recommended that health care costs be adjusted to the Bureau of Labor and Statistics ("BLS") average since non-union employees pay less than 12% of the health insurance premiums (Meyer Direct, page 21 line 6). Mr. Meyer supports this recommendation with a citation to a Commission finding in a streamlined rate case filed by Farmers R.E.C.C. (Meyer Direct, page 21, footnote 20).

**Q. HOW DO YOU RESPOND?**

A. I disagree with this recommendation. The basis for this recommendation is a Commission finding in a streamlined rate proceeding. But the instant case is not a streamlined rate proceeding, and the provisions of the streamlined rate pilot program (and newly effective Commission regulation on streamlined rate filings) do not apply here. No adjustment was made in the last Jackson Purchase case for this item, and none is required here.

**Q. WHAT DID THE AG RECOMMEND REGARDING RETIREMENT BENEFITS?**

A. The AG recommended that the costs of the least expensive plan for employees that qualify for more than one plan be removed (Meyer Direct, page 23 line 2).

**Q. HOW DO YOU RESPOND?**

A. Jackson Purchase did not remove the costs of the least expensive retirement plan for those that qualify for more than one plan but agrees that the revision proposed by Mr. Meyer here is reasonable and could be adopted. I address the numerical effects of this revision later in my testimony.

**Q. WHAT DID THE AG RECOMMEND REGARDING TIER?**

A. The AG recommended that the Commission establish rates based on a TIER of 1.85 (Meyer Direct, page 26 line 17).

**Q. HOW DO YOU RESPOND?**

A. I disagree with this recommendation, for several reasons.

First, the AG tabulated the Jackson Purchase TIER Achieved over the last ten years (Meyer Direct, page 25, Table GRM-4). The table shows that for every full calendar year, the achieved TIER was no higher than 1.73. The TIER in 2023 was 1.35 and for the two years before that TIER was less than 1.00. This is an adverse trend in recent years, and the 2024 year-to-date TIER of 2.11 cited by the AG is not comparable since it is a partial-year value. In short, Jackson Purchase has not actually achieved a TIER of 2.00 or greater for any calendar year in the last decade. The recent trend of low TIER values occurred over a period when Jackson Purchase filed three rate cases and was awarded rates based on a TIER of 2.00. The AG claims that Jackson Purchase was able to "make do" without filing for a rate increase with a TIER above 1.25 (Meyer Direct, page 25, line 7) but (a) "making do" is not the goal (particularly when the 2014-2019 period referenced was before the pandemic and subsequent inflationary environment) and (b) since that time Jackson Purchase has filed three rate cases in a five year period. One could argue that a TIER of 2.00 seems insufficient since the achieved TIER falls short of the awarded TIER in every year tabulated. Neither Jackson Purchase nor any other distribution cooperative has expended the additional resources for hiring an outside expert to quantify the appropriate TIER metric for ratemaking (as investor-owned utilities ordinarily due in rate cases to determine the proposed Return on Equity), instead relying on qualitative information and Commission precedent to support the proposed 2.00 TIER. Either way, the fact that Jackson Purchase has had to seek rate increases three times in the last five years indicates that revenues are simply insufficient and basing new rates on a TIER of less than 2.00 will exacerbate that problem, not mitigate it.

Second, a TIER of 1.85 is not much higher than the 1.25 minimum established in Jackson Purchase's loan covenants—which Jackson Purchase failed to meet in two of the last three years. The Commission has found in other cases that it is reasonable to set the target metric higher than the minimums required by cooperative lenders, in part because of the importance of unforeseen expenses. Cooperative margins are not solely related to paying off debt; they also allow the cooperative to manage volatility in the wholesale purchased power bills and unforeseen expenses like storm restoration and/or other O&M costs subject to rapid inflationary pressures. This is why the Commission should not set TIER close to the minimum levels required by the lenders; doing so would require the cooperative to operate even more on the razor's edge than they already do today.

Third, in Case No. 2021-00358, the Commission explicitly rejected the AG's recommendation to set Jackson Purchase's TIER at 1.50. The Commission cited the adverse effect on the cooperative's cash working capital, which could impair Jackson Purchase's ability to have sufficient cash flow to respond to unforeseen expenses.[3] The basis for the Commission decision in that case, decided only two years ago, applies in the instant case as well; setting TIER at 1.85 could impair cash working capital and cash flow for unforeseen expenses, particularly given the current inflationary cost pressures.

Fourth, the AG states that Jackson Purchase has riders to collect significant portions of its cost (Meyer Direct, page 26 line 5) and that the revenue requirement includes approximately $7.3 million for depreciation costs which have no corresponding required cash outlay (Meyer Direct, page 26 line 8). However, neither of these is persuasive because (a) both the revenue and the expense from

[3] *Id.*, p. 18.

the riders are excluded from the revenue requirement pursuant to standard Commission practice, and (b) the cash outlay for capital projects is up front, and the depreciation expense is the standard method for recovering those costs over the life of the assets. How much of the total costs are recovered from riders or depreciation is irrelevant to the requirement for margins from rates being sufficient to meet Jackson Purchase's needs each month.

Finally, the AG's recommendation of 1.85 is arbitrary. It is not supported by any analysis, comparative review of peers, formulaic determination, or case precedent. Even if one were to determine that the Commission's historic consideration of 2.00 TIER was inappropriate here – a determination for which there is no evidence in this docket – then there is still no reason to conclude that a TIER of 1.85 is the appropriate value for ratemaking purposes. There is no evidence in the record or in Commission precedent to support the reasonableness of applying a 1.85 TIER for Jackson Purchase.

For these reasons, it is not reasonable to make the AG's proposed TIER adjustment, and the Commission should not accept this recommendation.

**Q. BASED ON THE RESPONSES DESCRIBED HEREIN, AND THOSE NOTED IN DISCOVERY, WHAT IS THE REVISED REVENUE DEFICIENCY FOR JACKSON PURCHASE IN THIS CASE?**

A. The revenue deficiency changes from the originally filed $5,586,197 amount to $4,641,647, or a change of ($944,551).

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

A. Yes, but the revised pro forma adjustments have a negligible effect on the relative results of the COSS. The revisions change the cost-based rates by small increments and do not change the relative assessment of overall rates of return for Jackson Purchase's rate classes; the residential rates still have negative rates of return on rate base and are still being significantly subsidized by the non-residential rate classes. The cost based customer charge for Residential Rate RPS is $51.68 per month, compared to the actual current charge of $20.35 per month.

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

A. Because the fundamental results of the COSS 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. The proposed residential customer charge of $30.35 does not change. The proposed energy charge for residential changes from the as-originally-filed $0.118059 per kWh to $0.116367 per kWh.

**Q. HOW DO YOU SUMMARIZE THE REVISED REQUEST OF JACKSON PURCHASE AT THIS JUNCTURE OF THE CASE?**

A. Based on the latest information, Jackson Purchase is requesting an overall increase of $4,641,294. (This is $352 short of the $4,641,647 target revenue deficiency due to rate rounding.) Jackson Purchase is proposing to increase the Residential Rate RSP customer charge from $20.35 per month to $30.35 per month (which is still well short of the cost based $51.68 per month) and the energy charge from $0.114521 to $0.116367 per kWh, which will increase the average residential customer's monthly bill by $12.06 or 7%. This request is lower than that originally filed by Jackson Purchase but is required in order for the cooperative to meet the financial target of 2.00 TIER for the period of time when the proposed rates will be put in effect.

**Q. DID YOU UPDATE THE FILED EXHIBITS TO REFLECT JACKSON PURCHASE'S MOST RECENT POSITION, BASED ON THE RESPONSES DESCRIBED HEREIN?**

A. Yes. Updated files for Exhibit JW-2 (revenue requirement with pro forma adjustments), Exhibits JW-3 through JW-8 (COSS updated for pro forma adjustment revisions) and Exhibit JW-9 (present and proposed rates for revised revenue deficiency) are included in the three files provided electronically with this rebuttal testimony. These are the same three files uploaded with the original application, but they include revisions reflecting all of the items I described herein. Revised fields are noted in colored highlight. The Commission should rely on the updated exhibits in rendering its decision on Jackson Purchase's application in this case.

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

A. Yes, it does.