COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF JACKSON	)	
PURCHASE ENERGY CORPORATION FOR A	)	**CASE NO. 2024-00085**
GENERAL ADJUSTMENT OF RATES AND	)	
OTHER GENERAL RELIEF	)	

DIRECT TESTIMONY

OF

GREG R. MEYER

ON BEHALF OF THE

OFFICE OF THE ATTORNEY GENERAL OF THE COMMONWEALTH OF KENTUCKY

Brubaker &Associates, Inc.
16690 Swingley Ridge Road, Suite 140
Chesterfield, MO 63017

July 17, 2024

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DIRECT TESTIMONY OF GREG R. MEYER

I. QUALIFICATIONS AND SUMMARY

Q. Please state your name and business address.

A. Greg R. Meyer. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017.

Q. What is your occupation and by whom are you employed?

A. I am a consultant in the field of public utility regulation and a Senior Principal with the firm of Brubaker & Associates, Inc., energy, economic, and regulatory consultants.

Q. Please describe your educational and professional experience.

A. I graduated from the University of Missouri in 1979 with a Bachelor of Science Degree in Business Administration, with a major in Accounting. Subsequent to graduation I was employed by the Missouri Public Service Commission. I was employed with the Commission from July 1, 1979 until May 31, 2008.

I began my employment at the Missouri Public Service Commission as a Junior Auditor. During my employment at the Commission, I was promoted to higher auditing classifications. My final position at the Commission was an Auditor V, which I held for approximately 10 years.

As an Auditor V, I conducted audits and examinations of the accounts, books, records, and reports of jurisdictional utilities. I also aided in the planning of audits and investigations, including staffing decisions, and in the development of staff positions in which the Auditing Department was assigned. I served as Lead Auditor and/or Case Supervisor as assigned. I assisted in the technical training of other auditors, which included the preparation of auditors' workpapers, oral, and written testimony.

During my career at the Missouri Public Service Commission, I presented testimony in numerous electric, gas, telephone, and water and sewer rate cases. In addition, I was involved in cases regarding service territory transfers. In the context of those cases listed above, I presented testimony on all conventional ratemaking principles related to a utility's revenue requirement. During the last three years of my employment with the Commission, I was involved in developing transmission policy for the Southwest Power Pool as a member of the Cost Allocation Working Group.

In June of 2008, I joined the firm of Brubaker & Associates, Inc. as a Consultant. Since joining the firm, I have presented testimony and/or testified in the state jurisdictions of Arkansas, Florida, Idaho, Illinois, Indiana, Iowa, Kentucky, Maryland, Missouri, Montana, New Mexico, Ohio, Utah, Washington, Wisconsin, and Wyoming. I have also appeared and presented testimony in Alberta and Nova Scotia, Canada. In addition, I have filed testimony at the Federal Energy Regulatory Commission ("FERC"). These cases involved addressing conventional ratemaking principles focusing on the utility's revenue requirement. The firm Brubaker & Associates, Inc.

provides consulting services in the field of energy procurement and public utility regulation to many clients including industrial and institutional customers, some utilities, offices of attorneys general, and, on occasion, state regulatory agencies.

More specifically, we provide analysis of energy procurement options based on consideration of prices and reliability as related to the needs of the client; prepare rate, feasibility, economic, and cost of service studies relating to energy and utility services; prepare depreciation and feasibility studies relating to utility service; assist in contract negotiations for utility services, and provide technical support to legislative activities.

In addition to our main office in St. Louis, the firm also has branch offices in Corpus Christi, Texas; Detroit, Michigan; Louisville, Kentucky, and Phoenix, Arizona.

Q. On whose behalf are you appearing in this proceeding?

A. I am appearing on the behalf of the Office of the Attorney General of the Commonwealth of Kentucky ("OAG").

II. CASE OVERVIEW

Q. Please describe the rate increase that Jackson Purchase Energy Corporation ("JPEC" or "Company") filed.

A. On May 1, 2024, JPEC filed an application seeking approval to increase base rates by $5,585,876, to achieve a Times Interest Earned Ratio ("TIER") of 2.0. However, according to JPEC's Application, Exhibit JW-2, the Company is seeking to increase rates by $5,586,197. JPEC filed the direct testimony of three witnesses. JPEC serves approximately 23,000 members. JPEC stated in its Application that it must seek a general increase in its rates due to rising inflation and an increase in labor and supplies in all areas of the utility.

Q. Do you believe an increase in JPEC's revenues of approximately $5.6 million will result in just and reasonable rates for JPEC members?

A. No. I believe that the base rate increase proposed by JPEC is overstated. I have prepared Table GRM-1 that shows the adjustments I am proposing that reduce the revenue increase sought by JPEC.

TABLE GRM-1

Total Revenue Requirement Adjustments

Line	Description	Amount (1)
1	JPEC Claimed Revenue Deficiency[1]	$ 5,586,197
2	Donations and Dues Error[2]	$ (911,331)
3	Net JPEC Claimed Revenue Deficiency (as revised)[3]	$ 4,674,866
	Additional OAG Adjustments:	
4	Right of Way Expense	$ (1,113,716)
5	Rate Case Expense	$ (19,627)
6	Wage and Salaries	$ (320,030)
7	Overtime Wages	$ (268,038)
8	Incentive Compensation	$ (34,414)
9	Employee Awards	$ (3,269)
10	Healthcare Costs	$ (202,049)
11	Retirement Benefits	$ (23,390)
12	Improperly Booked Expenses	$ (57,964)
13	Time Interest Earned Ratio (TIER)	$ (398,160)
14	Total Additional OAG Adjustments	$ (2,440,657)
15	OAG Proposed Revenue Deficiency	$ 2,234,209

Sources & notes:
[1]Company Exhibit JW-2, Page 1 as filed on May 1, 2024.
[2]OAG adjustment - see this testimony in Section III. OAG questioned this mistake in DR 2-30. In response to this data request, JPEC provided a revised revenue
[3]Company Exhibit JW-2, Page 1 as refiled on July 10, 2024.

If my adjustments are accepted by the Commission, JPEC's proposed revenue deficiency as originally filed would decrease to $2,234,209.

I would also note that my silence with regard to any issues not addressed in this testimony should not be construed as acceptance of that issue. I reserve the right to adopt positions filed by other parties in this case.

III. DONATIONS, PROMOTIONAL ADVERTISEMENTS, AND DUES

Q. Did JPEC propose an adjustment to remove donations, promotional advertising, and dues?

A. Yes, however, it appears that there was a mistake made in the Company's filing such that rather than decreasing test year expenses for these items by the $455,666, JPEC increased the expenses by this amount. This effectively doubled the cost of these expenses in the Company's test year.

Q. How do you propose to correct this error?

A. I propose that the Company remove $911,331 from its proposed revenue requirement.

IV. RIGHT OF WAY EXPENSES

Q. Have you read the direct testimonies of John Wolfram and Greg Grissom as they relate to JPEC's right of way ("ROW") expenses?

A. Yes, I have. I have also reviewed the Company's responses to data requests related to the ROW expenses and the adjustment to these expenses in the proposed revenue requirement.

Q. What level of expense is JPEC requesting for ROW costs?

A. The Company is requesting approximately $4.7 million in ROW expenses. This represents an increase of $758,989 over the costs recorded for the 12 months ended August 31, 2023.

Q. Please explain the Company's estimate of this expense level.

A. In response to the Commission Staff's Data Request 2-10(a), JPEC provided the calculation for its proposed $4.7 million ROW expense. The Company premises its request on the 2024 estimated costs for circuit maintenance and removals for 237.6 miles, at a cost per mile of $12,427. JPEC then extrapolates this to cover 358 miles, which is the amount of miles required to be covered if the Company is to achieve compliance with its policy of a five-year maintenance cycle. In addition to these costs, JPEC estimates that it will spend $225,000 on herbicide for 2024.

Q. Do you support this level of ROW expense?

A. No, I do not. Based on both the Company's projections for 2024 and the history of the past 10 years, there is no reasonable basis to believe that JPEC is capable of meeting their target of providing ROW coverage for 358 miles per year. In the OAG's Data Request 1-53, JPEC was asked to provide the ROW annual budgeted and actual expense levels as well as number of miles trimmed from 2014 through April 30, 2024. The Company was unable to provide the actual number of miles trimmed in the years 2014 through 2019. For the years 2020 through April 30, 2024, both the budgeted and actual annual miles covered fell far short of the target of 358 miles/year. I have summarized the annual ROW miles trimmed in Table GRM-2 below.

Table GRM-2

ROW Miles Trimmed by Year

Year	Budgeted Miles to Trim	Actual Miles Trimmed
2020	203	203
2021	80	80
2022	309	242
2023	175	170
2024*	190	60

Source: Response to OAG DR 1-53.
Note: Actual only runs through April 30, 2024.

Q. Has the Commission expressed concern regarding the ROW expenses in prior cases?

A. Yes. This issue was a major area of contention in the Company's prior case. In Case No. 2021-00358, approximately 45% of the rate increase sought resulted from JPEC's projected increase in ROW management costs.[1] In addressing these costs, the Commission's Final Order stated:

> [T]he Commission places Jackson Purchase on notice that Jackson Purchase cannot continue in its approach to ROW management. In finding the proposed ROW management expense reasonable, the Commission is not excusing Jackson Purchase's past decisions. The Commission strongly encourages Jackson Purchase to take significant steps to address ROW management expenses, such as working with other electric utilities to develop regional bids for ROW management contracts. Merely taking the position that "the costs are what the costs

[1] *See* Case No. 2021-00358, *Electronic Application Of Jackson Purchase Energy Corporation for a General Adjustment of Rates And Other General Relief* (Ky. PSC Apr. 8, 2022), Order at 1.

> are," is inexcusable. In any future rate case, whether a streamlined case or a general rate adjustment case, Jackson Purchase should provide in specific detail what actions it has taken to address ROW management expenses.[2]

Ultimately, the Commission approved the Company's request for increased ROW expense levels at 358 miles of trimming and treatment "because it reflects the actual costs of ROW management expected."[3] As was noted in Table GRM-2, the Company has yet to achieve this goal in miles trimmed and treated, and as of 2024 has yet to even budget for this level of trimming and treatment.

Q. What is your proposal for ROW expenses?

A. I propose that the ROW miles (and thus expenses) be set with the Company's history firmly in mind. I am not convinced that JPEC has the capability to fully trim and treat the ROWs in accordance with its policy of a five-year cycle. It should also be noted that if the Company receives the full $4.7 million in ROW expense then the Company will continue to receive this amount every year until rates are reset, regardless of whether or not the funds are used for ROW. I propose that the ROW be set with the maximum actual trimmed and treated miles recorded over the past 10 years, which is 242 miles. In addition, understanding that ROW trimming and treatment has been significantly deferred, I propose to increase this maximum mileage by 10%, for a total of 266.2 miles of trimming. With the current costs of trimming and herbicide of

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[2] *Id*. at 12.
[3] *Id.*

$13,374/mile,[4] this brings the total cost of ROW trimming and treatment to $3,560,154. This is a reduction to the Company's proposed expense of $1,113,716.

This amount of trimming and treatment should be within the grasp of JPEC's contractors while improving the Company's reliability of service for its member-owners.

Q. Do you have any additional recommendations as to ROW management expenses?

A. Yes. First and foremost, I would recommend that the Commission continue to encourage JPEC to take steps to address the increased ROW management expenses, such as working with other electric utilities to develop regional bids for ROW management contracts.[5] The Commission should also continue to require JPEC to provide specific detail as to what actions have been taken to address ROW management expenses in future rate cases. In the pending case, the Company admits that the only action it has taken to address the ROW management expenses since the prior rate case is to be selective in the trees that it removes and to delay herbicide spraying in some years. Clearly, more needs to be done to hold down ever increasing ROW costs.

Secondly, given JPEC's history of not meeting its targeted five-year trim cycle plan, I would propose that JPEC be subject to a one-way ROW expense tracker mechanism. Any unspent money should be recorded as a regulatory liability with the annual amounts spent below the Commission authorized amount to either return to

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[4] *See* JPEC's response to Commission Staff DR 2-10(a). The current cost of trimming was shown as $12,427. The 2024 estimated herbicide treatment cost of $225,000 was divided by the projected 237.6 miles projected to be covered in 2024.

[5] *See* Case No. 2021-00358, *Electronic Application Of Jackson Purchase Energy Corporation For A General Adjustment Of Rates And Other General Relief*, (Ky. PSC Apr. 8, 2022), Order at 12.

customers in the next rate case or to offset any overspending in the interim period until the next rate case.

Q. How would the one-way ROW expense tracker mechanism operate?

A. Assume rates are established that include $5 million for ROW maintenance expenses. Also assume that during the year JPEC spends $4 million on ROW maintenance. JPEC would be required to pool unspent money and use it to spend an additional $1 million in a future 12-month period without raising members' rates or return those funds to customers in the next rate case.

Q. If JPEC does not spend the full amount in a year, can that amount be decreased by spending more in a subsequent year?

A. Absolutely. However, if JPEC spends more over a span of several years than what has been included in customers' rates, JPEC cannot seek recovery of that additional spend in a future rate case. In other words, no retroactive recovery should be allowed.

V. RATE CASE EXPENSE

Q. Have you read the direct testimony of John Wolfram as it relates to JPEC's rate case expense adjustment?

A. Yes, I have.

Q. What level of rate case expense is JPEC requesting in this rate case?

A. JPEC is requesting recovery of $210,000 in current rate case expense and $58,881 in unamortized expense from the Company's last rate case. JPEC is proposing to amortize rate case expenses over three years, or $89,627 annually to be included in its revenue requirement.[6]

Q. Are you in agreement with the level of rate case expense and the amortization period?

A. I take no issue with the Company's projections for the current rate case which I anticipate will be trued-up to actual rate case expense closer to any settlement or hearing, but the total remaining rate case expense from the prior rate case should be eliminated. JPEC had control over when it chose to file its application, and members should only pay for the costs of a single rate case at a time.

Q. Do you agree with JPEC's proposed amortization period for rate case expense recovery?

A. Yes. In light of the Company's recent rate case filing history, a three-year amortization period would be appropriate for this utility.

[6] *See* Exhibit JW-2, Reference Schedule 1.08.

Q. What is the impact of your recommendation to remove the unamortized balance of prior rate case expense?

A. This lowers the recommended expense level by $19,627.[7]

Alternatively, if the Commission allows the prior rate case expense to be recovered by the Company, then it is important to note that it is overstated in the Company's revenue requirement. In response to Commission Staff Data Request 1-6, the Company noted that the unamortized balance of prior rate case cost of $58,881 was measured as of May 1, 2024, rather than the potential rate effective date, subject to refund, of November 1, 2024. Measured at that time, the remaining rate case expense from the last rate case will only be $23,552. Adding this balance to the projected rate case expense for the current case of $210,000 and amortizing over the recommended three-year period would lead to an annual rate case expense of $77,851, a reduction to JPEC's proposed revenue requirement of $11,776.

VI. WAGE AND SALARIES EXPENSE

Q. Have you read the direct testimonies of John Wolfram and Greg Grissom as it relates to JPEC's wages and salaries expense?

A. Yes, I have.

[7]JPEC's projected rate case cost for the current case is $210,000. Divided over three years this amounts to $70,000 per year. JPEC currently is requesting $89,627 in rate case expense per year. Subtracting this from OAG's recommended $70,000 provides a revenue requirement reduction of $19,627.

Q. Do you have any concerns with the pro forma adjustment that is included in JPEC's wages and salaries calculation?

A. Yes. I believe that the adjustment is overstated due to an unjustified increase in the number of employees on the Company's pro forma payroll. As described in the response to OAG's Data Request 2-20, "[t]he revenue requirement was based on 70 full-time employees. Jackson Purchase currently employs 66 full-time employees, with 4 vacancies listed." In response to the same data request, JPEC provided a spreadsheet demonstrating that each vacant position was created in or after March of 2024,[8] which is well after the test year of 12 months ended August 31, 2023, at a total cost of $441,726.

Q. How does JPEC calculate its adjustment to regular time hours?

A. The Company takes regular time hours based on a pro forma 70 employees at 2,080 hours and multiplies the hours by the pro forma test year wage rate. This brings the total cost of pro forma payroll for regular time up to $5.9 million from $5.3 million, an approximate $600,000 increase.

Q. Has the Company provided any justification for this increase?

A. No, quite the opposite. In his testimony discussing cost-containment measures, JPEC witness Greg Grissom claimed that one of the measures taken was keeping the number of employees low, stating "Jackson Purchase has kept staffing at the lowest level possible to still maintain safe and reliable service. Among companies its size, Jackson

[8]The open dates for each position were listed as: March 2024; June 12, 2024; July 1, 2024; and July 5, 2024.

Purchase ranks 65th lowest out of 67 companies for number of full-time employees, according to 2022 KRTA data."[9]

Q. How do you propose to address the regular wages and salaries for JPEC?

A. I suggest that the cost of the unjustified vacancies be removed, the total cost of which is $441,726. That amount takes into account both expense and capitalized payroll and so it must be adjusted to reflect only the expense portion. To do this, I multiplied the total cost by one minus the capitalization rate of 27.55%. Therefore, I am proposing to reduce JPEC's revenue requirement by $320,030 for the unjustified vacancies.

VII. OVERTIME WAGES

Q. Have you reviewed the calculation of pro forma overtime wages included in Exhibit JW-2, Reference Schedule 1.11?

A. Yes, I have.

Q. Please describe the calculation of pro forma overtime wages.

A. JPEC witness Mr. Wolfram begins with the number of overtime hours worked (21,995.5 hours) and the overtime dollars paid during the test year ($1,421,681). Dividing the dollars by the hours, Mr. Wolfram determines the average overtime wage of $64.64.

For the pro forma overtime, Mr. Wolfram assumes no change to the overtime hours worked. He also assumes that the overtime wage will grow in proportion to the average regular time wage (6%), for a resulting overtime wage of $68.40 per hour.

[9]*See* Direct Testimony of Greg Grissom, page 5, lines 13-16.

Multiplying the hours by the wage rate, Mr. Wolfram calculates that the total overtime cost is $1,504,559.

Q. Do you believe that this calculation results in a reasonable cost for overtime hours worked?

A. No, I do not. My concerns begin with the overall amount of test year overtime wages. In OAG Data Request 1-64, JPEC was asked to provide, among other things, a breakdown of overtime wages for each of the last five calendar years. I have summarized the annual overtime wages paid in Table GRM-3 below.

Table GRM-3

Overtime Wages By Year

Year	Overtime
2019	$ 1,153,238
2020	$ 750,795
2021	$ 1,252,533
2022	$ 1,118,590
2023	$ 1,397,826
Average Overtime Paid	$ 1,134,596

Source: JPEC Response to OAG DR 1-64.

While it very well could be that the distribution of 2022's overtime just so happened to be weighted towards the end of 2022, and 2023's overtime was weighted more heavily to the first eight months, the test year amount of overtime paid does not appear to be representative of prior years' experience. The $1,421,681 in test year overtime cost (prior to the pro forma increase) exceeds every year in the past five calendar years. This is especially apparent when we consider that by merely shifting our timeframe forward by four months, we have an annual overtime amount $23,855 less than the test year.[10]

Furthermore, in determining the overall payroll, JPEC assumed that there would be additional employees working a full year's 2080 regular hours, yet the Company did not assume any reduction in overtime necessary. If one assumes extra employees to help shoulder the workload, it would make sense to assume there would be less need for overtime.

Finally, the average regular-time wage growth should not be used in determining the growth (if any) in the overtime wage rate. The average regular-time wage growth used by Mr. Wolfram includes many employees not eligible for overtime, or those who did not incur overtime.

Q. What is your proposal for overtime wages?

A. Since overtime in a given period is a complex mix of factors such as number of employees' available, wage rates of employees asked to work overtime, and the total amount of work to be done, among other things, it makes sense to look at an average of a multi-year period. Looking back over the past five years (as shown in Table GRM-3 above), we see that the overtime costs fluctuate up and down rather than lining up in a clearly discernable trend – this further supports an average approach. Therefore, I propose that overtime costs be set at $1,134,596 (the five-year average of these costs)

[10] $1,421,681 - $1,397,826 = $23,855.

before applying the labor capitalization rate. This reduces pro forma overtime wages by \$369,963. After applying the capitalization rate, I am proposing to remove \$268,038 from the proposed revenue requirement.[11]

VIII. INCENTIVE COMPENSATION

Q. Does JPEC pay incentive compensation to any of its employees?

A. Yes, the Company pays incentive compensation to its President and Chief Executive Officer ("CEO"). In 2023, JPEC paid out \$47,500, which has increased to \$48,000 in its 2024 budget.[12]

Q. Has JPEC included incentive compensation in its calculation of revenue requirement?

A. Yes. In response to OAG Data Request 2-35, which asked about how much incentive compensation was embedded in the Company's revenue requirement, JPEC responded "[a]ll of the incentive compensation was included in the calculation for Jackson Purchase's revenue requirement."

Q. Does JPEC have any specific written criteria with specific goals for incentive compensation awards?

A. No. As stated in response to OAG Data Request 2-2(ff), "Jackson Purchase does not have a formal policy regarding incentive compensation."

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[11] JPEC's labor capitalization rate as found on Exhibit JW-2, Reference Schedule 1.11, is 27.55%. \$369,963 x (1 - 0.2755) = \$268,038 in O&M expense.

[12] *See* JPEC's response to OAG Data Request 1-3.

Q. Do you believe it is appropriate to include any incentive compensation in revenue requirement absent specific written criteria that are designed to enhance member service?

A. No, I do not. As such, I propose that the cost of the incentives be removed from JPEC's revenue requirement.

Q. What adjustment to revenue requirement do you propose?

A. I propose that the 2023 amount of incentive compensation, reduced for the effects of capitalization, be removed from the Company's revenue requirement. This amounts to a reduction of $34,414.[13]

IX. EMPLOYEE AWARDS

Q. Has the Company included any employee awards in its revenue requirement calculation?

A. Yes. The Company has included employee awards as part of its revenue requirement. For 2022, that amount was $2,874. For 2023, that amount was $3,467. The amount for the 12 months ended August 2023 was not provided.[14]

[13]Calculated as $47,500 x (1 – 27.55% [capitalization rate]) = $34,414.
[14]*See* JPEC's response to OAG Data Requests 1-3, 1-4, and 1-5.

Q. Do you believe that these employee awards are appropriate to be recovered from ratepayers?

A. No. Consistent with the Commission's Order in Case No. 2023-00147,[15] I recommend that all employee awards be removed as they are not beneficial to ratepayers.

Q. What is the amount you propose to remove for employee awards?

A. I propose $3,269 to be removed. This is a time-weighted average of the 2022 (four months in the test year) and 2023 (eight months in the test year) awards.[16]

X. HEALTH CARE COSTS

Q. Has the Company made an adjustment to test year health care premiums?

A. Yes. JPEC witness Wolfram discusses this in his direct testimony stating that the costs were adjusted to a lower amount to represent those "costs on a forward-looking basis."[17]

Q. Please describe the adjustment.

A. Mr. Wolfram adds the employer and employee portions of the health care costs and multiplies this sum by 12%. This 12% represents the average portion of premiums covered by the employees in 2023.[18] As described in the direct testimony of Meredith Kendall, JPEC pays 82.5% of the premium for union employees and approximately 92% of the cost for non-union employees.[19]

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[15] *See* Case No. 2023-00147, *Electronic Application of Taylor County Rural Electric Cooperative Corporation for a General Adjustment of Rates* (Ky. PSC Apr. 5, 2024), Order at 5 – 6.

[16] $2,874 x (4/12) + $3,467 x (8/12) = $3,269.

[17] *See* Direct Testimony of John Wolfram, page 13, lines 10-11.

[18] *See* the Company's response to the Commission Staff Data Request 1-31 for the year 2023. *See* Columns T and U in the 2023 tab.

[19] *See* Direct Testimony of Meredith Kendall, page 9, lines 19-23.

Q. Does the Commission have precedent regarding the amount of cost that *should* be covered by employees?

A. Yes. In its Final Order in Case No. 2023-00158, the Commission noted that "the Commission has since maintained the position that employee contribution rates of less than 12 percent will be adjusted to the Bureau of Labor Statistics (BLS) average."[20] Given that the non-union employees pay less than the Commission standard of 12%, an adjustment is warranted.

Q. Has the Company performed any calculation of the adjustment necessary to meet this standard?

A. Yes. In response to the Commission Staff's Data Request 2-11, which asked JPEC to "[p]rovide the adjustment necessary to reduce Jackson Purchase Energy's contribution to employee insurance premiums to the Bureau of Labor Statistics' average" the Company indicated that a reduction to test year expense of $208,537 was necessary. JPEC had already reduced its test year expense by $6,488, so the reduction to the proposed revenue requirement would be $202,049.

[20] *See* Case No. 2023-00158, *Electronic Application of Farmers Rural Electric Cooperative Corporation for a General Adjustment of Rates Pursuant to Streamlined Procedure Pilot Program Established in Case No. 2018-00407*, (Ky. PSC Oct. 3, 2023), Order at 10.

XI. RETIREMENT BENEFITS

Q. Does the Company offer certain employees a defined benefit and a defined contribution retirement plan?

A. Yes, as noted in the direct testimony of Meredith Kendall, "[n]on-bargaining employees who have been employed prior to 2006 participate in the NRECA retirement security plan, and also receive a 4% contribution to their 401(k) account."[21]

Q. For those individuals receiving both a defined benefit and a defined contribution, how much is the cost to rate payers for each retirement plan?

A. In 2023, the Company paid $217,580 towards the defined benefit plan and $23,390 towards the defined contribution plan for eight non-union employees.

Q. Does the Commission have precedent regarding the amount of retirement costs that should be included for ratemaking purposes?

A. Yes. The Commission has stated that all employees should have a retirement benefit, but finds it "excessive and not reasonable" for a utility to contribute to both a defined benefit pension plan as well as a defined contribution plan for employees.[22] Thus, the Commission has consistently found that only the costs associated with the more expensive retirement plan (i.e., defined benefit plan) should be included for ratemaking purposes, while the costs associated with the defined contribution plan (i.e., 401(k) plan) should be removed.

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[21] *See* Direct Testimony of Meredith Kendall, page 10, lines 10-12.

[22] Case No. 2016-00169, *Application of Cumberland Valley Electric, Inc. for a General Adjustment of Rates* (Ky. PSC Feb. 6, 2017), Order at 10; Case No. 2017-00349, *Electronic Application of Atmos Energy Corporation for an Adjustment of Rates and Tariff Modifications* (Ky. PSC May 3, 2018), Order at 19 – 20.

Q. What is your recommended adjustment for retirement costs?

A. Consistent with the Commission's precedent, I propose to remove the costs related to the defined contribution plan of $23,390.

XII. IMPROPERLY BOOKED EXPENSES

Q. Are you proposing an adjustment to remove costs from the test year expenses that should have been booked to plant accounts?

A. Yes. In response to Commission Staff's Data Request 2-17, JPEC noted that invoices totaling $57,964 were improperly booked to administrative and general expense. These costs were incurred "to stake and draw work orders for pole replacements." In its response, JPEC reports that it agrees that these costs should have been capitalized. Therefore, I am proposing to remove this amount from the Company's pro forma test year expense.

XIII. TIMES INTEREST EARNED RATIO

Q. What is the Times Interest Earned Ratio ("TIER")?

A. The TIER is a ratio that compares an entity's earnings before interest and tax and its interest obligations. As described by Eugene F. Brigham and Michael C. Ehrhardt in the 12th edition of <u>Financial Management: Theory and Practice</u>, page 1044, it "measures the extent to which operating income can decline before the firm is unable to meet its annual interest costs."

Q. Why is this ratio important for an electric cooperative?

A. Electric cooperatives frequently borrow from agencies like the Rural Utilities Service ("RUS") and Federal Financing Bank ("FFB"), or institutions such as the National Rural Utilities Cooperative Finance Corporation ("CFC"), or CoBank, who mandate that loan recipients maintain a certain TIER in order to insure solvency and reduce the default risk on loans.

Q. Does JPEC have loans with a TIER condition?

A. Yes. Per the Company's response to the OAG's Data Request 1-29(b), "[n]ormally loans entered into by co-op only require a TIER of 1.25X."

Q. Has JPEC been able to meet the 1.25 TIER requirement over the past 10 years?

A. Yes, but the Company failed to meet the 1.25 TIER requirement in 2021 and 2022. However, as of April 30, 2024, JPEC had a TIER of 2.11.[23] I have summarized the TIER achieved in each of the last 10 years in Table GRM-4 below.

[23] *See* JPEC's response to OAG Data Request 1-17(a).

Table GRM-4

JPEC TIER Achieved
by Year (2014 - April 30, 2024)

Year	TIER
2014	1.63
2015	1.73
2016	1.39
2017	1.43
2018	1.44
2019	1.61
2020	1.65
2021	0.31
2022	0.96
2023	1.35
2024*	2.11

Source: JPEC response to OAG DR 1-17a.

Q. What TIER has the Company requested in its revenue requirement?

A. Per the testimony of John Wolfram, JPEC's revenue requirement request is predicated on a TIER of 2.0.[24]

Q. Has the Company offered any reasoning behind the 2.0 TIER request?

A. No, JPEC has not offered any specific need to meet a 2.0 TIER as opposed to any other TIER above the minimum required by its loan covenants. Referring back to Table GRM-4, we can see that JPEC was able to make do without filing for a rate increase with a TIER above 1.25, but below a 2.0, from 2014 through March of 2019.

[24] *See* Direct Testimony of John Wolfram, page 7, lines 20-22.

Q. JPEC has stated that the recommended TIER was necessary to "earn a reasonable return on its investment, and manage contingencies related to providing safe, reliable, and cost-effective electric service to its members."[25] Do you believe that these concerns are valid?

A. No. JPEC has riders to collect significant portions of its cost, essentially guaranteeing that the Company will be completely made whole for its fuel costs and environmental surcharges, and non-FAC Purchase Power Agreements. These costs alone represent approximately 19% of the unadjusted test year O&M expenses.[26] Additionally, the revenue requirement includes approximately $7.3 million for depreciation costs[27] which have no corresponding required cash outlay.

Q. How much is added to the revenue requirement in order to provide JPEC with a 2.0 TIER?

A. A 2.0 TIER mandates that an additional $2.66 million be added to the Company's revenue requirement. The $2.66 million is approximately 15% of non-fuel operation and maintenance expense of JPEC.[28]

Q. Do you agree with this TIER request?

A. No. I propose a TIER of 1.85. A TIER of 1.85 is sufficient to ensure the Company has more than necessary funds to meet its debt obligations with an adequate cushion should

[25] *See* JPEC's response to OAG Data Request 1-29(d).

[26] Adjustments for the expense portion of FAC, ES, and Non-FAC PPAs totaling $16,605,180 ÷ total unadjusted O&M expenses of $87,132,925 = 19.06%. These figures were taken from JPEC's revenue requirement model.

[27] *See* the adjusted test year depreciation expense of $7,310,149 from JPEC's revenue requirement model.

[28] $2,657,867 / ($75,720,678 – $57,789,683) = 14.8%

the cost of debt increase, while saving JPEC's member-owners approximately $400,000 in revenue requirement.[29]

Q. Are you aware that the Commission has historically allowed a TIER ratio of 2.0?

A. Yes, I am. However, as this Commission held in Case No. 2021-00407, the appropriate TIER should be decided "on a case by case basis…"[30]

Q. Does this conclude your direct testimony?

A. Yes, it does.

[29]A 1.85 TIER has a revenue requirement impact of $2,259,187. $2,657,867 - $2,259,187 = $398,160.

[30]Case No. 2021-00407, *Electronic Application of South Kentucky Rural Electric Cooperative Corporation for a General Adjustment of Rates, Approval of Depreciation Study, and Other General Relief* (Ky. PSC June 30, 2022), Order at 18.

AFFIDAVIT

STATE OF MISSOURI)

COUNTY OF ST. LOUIS)

GREG R. MEYER, being duly sworn, deposes and states that the attached is his direct testimony and that the statements contained are true and correct to the best of his knowledge, information and belief.

Greg R Meyer

Greg R. Meyer

Sworn to and subscribed before me on this 17th day of July 2024.

TAMMY S. KLOSSNER
Notary Public - Notary Seal
STATE OF MISSOURI
St. Charles County
My Commission Expires: Mar. 18, 2027
Commission # 15024862

Tammy S Klossner

Tammy S. Klossner