

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE ELECTRONIC APPLICATION OF)	
BIG SANDY RURAL ELECTRIC)	CASE NO.
COOPERATIVE CORPORATION)	2024-00287
FOR A GENERALADJUSTMENT OF RATES)	

POST HEARING BRIEF

Comes now, Big Sandy Rural Electric Cooperative Corporation (“Big Sandy” or the “Company”), by counsel, pursuant to the Kentucky Public Service Commission’s (“Commission”) February 19, 2025 Order in this proceeding setting forth the post-hearing procedural schedule and the deadline for submitting a post-hearing brief in support of its position in this matter, and respectfully states as follows:

INTRODUCTION

This case presents the request for a rate adjustment by Big Sandy that is necessitated by substantial increases in general operating expenses coupled with decreased energy sales due to a reduced number of customers and a decline of the coal mining industry in Big Sandy’s service territory. However, the combination of increased expenses and loss of sales has resulted in a degradation of Big Sandy’s financial condition. To address Big Sandy’s undesirable financial condition, the Cooperative’s Board of Directors, in conjunction with management and its consultant, determined that a general adjustment of retail rates is necessary to improve its overall financial condition, satisfy future loan covenants, and to account for increased costs in virtually all areas of Big Sandy’s business operations since its last full rate case.

Consistent with KRS 278.030(1), Big Sandy seeks approval to increase its annual revenues by \$2,861,372.00.¹ This will allow Big Sandy to achieve a Times Interest Earned Ratio (“TIER”) of 2.00. Big Sandy based its proposed rates on a twelve-month historic test period ending December 31, 2023. Included in the request is an increase of the monthly customer charge from \$21.95 to \$29.00. These rates are based on the results of a comprehensive cost of service study (“COSS”). The rates are appropriately adjusted for known and measurable changes consistent with Commission regulations and precedent.

Through extensive discovery and a formal hearing, each of Big Sandy’s assertions and claims were explored by Commission Staff (“Staff”) and the Kentucky Attorney General’s Office of Rate Intervention (“Attorney General”). As is normal in any contested rate case, there are differing positions on the revenue requirement, customer charge, and pro forma adjustments. However, in the end Big Sandy supported its position with a COSS and the methodologies employed for calculation of its requested pro forma adjustments are accurate and reliable and should provide the basis for a Commission decision granting the requests in this case.

PROCEDURAL HISTORY

Big Sandy filed its Notice of Intent to file this rate proceeding on August 30, 2024.² Big Sandy filed its Application on October 1, 2024.³ The Attorney General’s Office of Rate Intervention (“Attorney General”) was granted intervention on October 25, 2024.⁴ The Commission entered an Order on October 18, 2024, suspending the rates proposed by Big Sandy

¹ Rebuttal Testimony of John Wolfram at 12 (filed February 10, 2025).

² Notice of Intent (filed August 30, 2024).

³ Application (filed October 1, 2024).

⁴ October 25, 2024 Order (Ky. PSC. October 25, 2024).

until March 31, 2025.⁵ Big Sandy responded to three rounds of discovery from Commission Staff⁶ and two rounds of discovery from the Attorney General.⁷ The Attorney General filed its Direct Testimony and responded to discovery requests.⁸ Subsequently, Big Sandy filed its rebuttal testimony.⁹ A hearing was held on February 18, 2025.¹⁰ A post-hearing procedural schedule was entered on February 19, 2025,¹¹ and Big Sandy responded to post-hearing requests for information from Commission Staff and the Attorney General.¹² Big Sandy now submits the following post-hearing brief in support of its position.

ARGUMENT

I. Big Sandy's Pro Forma Adjustments Are Reasonable and Should Be Accepted By the Commission

a. Big Sandy's Right-Of-Way (Vegetation Management) Pro Forma Adjustment Is Reasonable and Should Be Accepted By the Commission

As the Commission is aware, the rising costs of vegetative management have been seen among all electric utilities that come before the Commission. Big Sandy requested \$2.06 million for right-of-way (“ROW”) management, including an additional increase of \$698,996 in its

⁵ October 18, 2024 Order (Ky. PSC. October 18, 2024).

⁶ Big Sandy's Responses to Staff's First Request for Information (filed October 16, 2024); Big Sandy's Responses to Staff's Second Request for Information (filed November 15, 2024); and Big Sandy's Response to Staff's Third Request for Information (filed December 20, 2024).

⁷ Big Sandy's Responses to the Attorney General's First Request (filed November 15, 2024) and Big Sandy's Response to the Attorney General's Second Request (filed December 20, 2024).

⁸ Direct Testimony of Greg R. Meyer (filed January 3, 2025) and OAG Response to Big Sandy's First Request for Information (filed January 31, 2025).

⁹ Wolfram Rebuttal Testimony (filed February 10, 2025).

¹⁰ Hearing Video Transcript (HVT) of the February 18, 2025 Hearing.

¹¹ February 19, 2025 Order (Ky. PSC. February 19, 2025).

¹² Big Sandy's Responses to Staff's Post-Hearing Request for Information (filed February 28, 2025) and Big Sandy's Response to the Attorney General's Post-Hearing Request (filed February 28, 2025).

Application. Big Sandy maintains approximately 1,000 miles of ROW and attempts to clear these circuits in a seven-year cycle and should clear 138 miles of circuit line per year.¹³

Big Sandy has fallen behind on the seven-year cycle.¹⁴ In 2020, Big Sandy cleared 63 miles.¹⁵ In 2021, Big Sandy cleared 54.5 miles.¹⁶ In 2022, Big Sandy cleared 59.8 miles.¹⁷ In 2023, Big Sandy cleared 84.67 miles.¹⁸ In 2024, Big Sandy cleared 108 miles.¹⁹ While not clearing the anticipated mileage per year, Big Sandy has maintained safety and reliability of its system by trimming the most needed areas and applying additional herbicide to keep weeds from growing.

Big Sandy indicated that in the past there was no money budgeted for ROW because Big Sandy was operating on the smallest possible budget.²⁰ Since the change in management within the Cooperative, vegetation management has become a priority.²¹ Big Sandy is confident that its new approach to vegetative management is effective and with the proper amount of funding it will be possible to trim 138 miles per year, evidenced by the fact that Big Sandy was able to clear 108 miles in 2024. Disallowing the requested increase for Big Sandy's vegetation management will cause Big Sandy to fall further and further behind. Moreover, moving to cost-based rates by

¹³ Big Sandy's Response to the Attorney General's Second Request for Information, Item 35.

¹⁴ Big Sandy's Response to the Attorney General's First Request for Information, Item 44.

¹⁵ Big Sandy's Response to the Attorney General's First Request for Information, Item 44.

¹⁶ Big Sandy's Response to the Attorney General's First Request for Information, Item 44.

¹⁷ Big Sandy's Response to the Attorney General's First Request for Information, Item 44.

¹⁸ Big Sandy's Response to the Attorney General's First Request for Information, Item 44.

¹⁹ HVT at 9:20:15.

²⁰ HVT at 9:22:20.

²¹ HVT at 9:22:20.

moving the customer charge to the requested \$29.00 will allow Big Sandy to be less dependent on energy sales to generate the income needed to complete the 138-mile yearly goal.

As explored through the discovery process and the formal hearing, Big Sandy created a wholly owned subsidiary in 2023, Big Sandy Forestry, LLC (“Big Sandy Forestry”), to help manage its ROW costs. Big Sandy Forestry was created to manage necessary “hot spot” and off-cycle tree trimming.²² Big Sandy Forestry operates separately from Big Sandy. While Big Sandy Forestry does not bid for the off-cycle tree trimming, its contract with Big Sandy is based upon the lowest bids from other contractors.²³ The purpose of Big Sandy Forestry, as a subsidiary, is to save costs on the employee benefits and insurance costs Big Sandy would have to pay if the tree trimming program was brought in-house.²⁴ Any losses sustained by Big Sandy Forestry are retained by that subsidiary and are not assumed by Big Sandy.²⁵ However, profits made by Big Sandy Forestry are transferred to Big Sandy at the end of the fiscal year.²⁶ For 2024, Big Sandy Forestry profited \$39,359.71 which was transferred to Big Sandy.²⁷

While a subsidiary model is not the traditional model seen by the Commission, Big Sandy benefits and thrives under this model. The service territory of the Cooperative is rural, and the terrain is difficult. Big Sandy provided testimony explaining that it was challenging for vegetation management contractors to find sufficient workers.²⁸ Creating Big Sandy Forestry allowed Big

²² HVT at 9:28:15.

²³ HVT at 9:28:15.

²⁴ HVT at 9:28:15.

²⁵ Big Sandy’s Response to the Attorney General’s Post-Hearing Request for Information, Item 4.

²⁶ Big Sandy’s Response to the Attorney General’s Post-Hearing Request for Information, Item 4.

²⁷ Big Sandy’s Response to the Attorney General’s Post-Hearing Request for Information, Item 4.

²⁸ Big Sandy’s Response to the Attorney General’s Second Request for Information, Item 20 and HVT at 10:41:01.

Sandy to ensure laborers would be available to assist with off-cycle tree trimming. This allows the contractors that bid on the circuit trimming to focus on cutting as many cycle miles as possible. Big Sandy Forestry creates no additional costs for ratepayers, pays its own expenses, and carries its own insurance.²⁹

The Attorney General recommended basing Big Sandy's ROW clearing on an average of 105 miles per year and assuming costs of \$11,045/mile. This would reduce Big Sandy's proposed ROW expense by \$462,172.³⁰ The Attorney General also proposed a one-way ROW expense tracker.³¹ The Attorney General proposed Big Sandy be subjected to an annual reconciliation report that details the amount trimmed and explain why additional miles could not be trimmed.³²

The Attorney General's position is flawed and should not be accepted by the Commission. First, the way to ensure Big Sandy is able to complete the seven-year cycle is to allow Big Sandy the requested amount for ROW maintenance. Not allowing Big Sandy the additional revenue for ROW maintenance will ensure that Big Sandy will not meet its goal of a seven-year cycle. The costs for vegetative management continue to rise, through no fault of Big Sandy. The lack of additional funding will cause Big Sandy to fall further and further behind, ultimately harming the members and compromising safety and reliability. There is no evidence in the record to support the conclusion that Big Sandy is making imprudent decisions regarding ROW management. Big Sandy is responding to the local and national pressures regarding ROW for electric utilities. Big Sandy is managing its ROW maintenance in an efficient and reasonable manner and the

²⁹ Big Sandy's Response to Staff's Post-Hearing Request for Information, Item 12.

³⁰ Direct Testimony of Gregory Meyer at 28.

³¹ Direct Testimony of Gregory Meyer at 29.

³² Direct Testimony of Gregory Meyer at 10-11.

Commission should accept Big Sandy's requested pro forma increase of \$698,996 for a total of \$2.06 million in ROW expenses.

b. The Attorney's General's Weather Normalization Adjustment Should Be Rejected

The Attorney General proposed what is effectively a Weather Normalization Adjustment ("WNA") for the revenue requirement.³³ The Attorney General first calculated heating degree days ("HDD") and cooling degree days ("CDD") during a five-year period. Then the Attorney General concluded that Big Sandy's base revenues for 2023 are understated due to milder winter and summer weather and proposed restating residential revenue based on the five-year historical average usage instead of test year usage, which would reduce the revenue requirement by \$349,801.³⁴

The Commission should reject this adjustment for several reasons. First, it is not appropriate to adjust usage from test year actuals to a five-year historical average without also adjusting other parameters in the test year (including wholesale purchased power expenses) to a five-year historical average; this violates the matching principle.³⁵

Second, there is no evidence to support the specific use of a five-year average usage per customer as the appropriate method to correlate weather and usage; the appropriate way to adjust for this would be to calculate and apply a WNA analysis. The Attorney General provided information about HDD and CDD but did not perform a complete WNA analysis in which usage and weather correlations are mathematically determined using linear regression techniques. The AG did not rely upon 20 or 30 years of HDD/CDD weather, apply standard deviation bandwidths to monthly amounts, or perform any other parts of the conventional WNA analysis. Instead, the

³⁴ Direct Testimony of Greg Meyer at 11-13.

³⁵ Rebuttal Testimony of John Wolfram at 4.

AG compiled HDD/CDD data and suggested that five-year average consumption would be a sound way to reflect weather variations into the revenue requirement *without* relying on a WNA analysis to draw that conclusion. The Commission has rejected adjustments for WNA for these reasons on multiple occasions in the past.³⁶

Third, the Commission has not required or addressed the WNA in any recent electric distribution cooperative rate cases of which Big Sandy is aware.³⁷ For these reasons, the Commission should reject the adjustment to usage proposed by the AG and should instead accept test year consumption in the revenue deficiency calculation.

II. Big Sandy's Rate Design is Reasonable and Is Supported By The Cost-Of-Service Study

Big Sandy engaged the services of Catalyst Consulting LLC (“Catalyst”) to perform a comprehensive cost of service study (“COSS”) to assist Big Sandy in designing its proposed rates. Mr. John Wolfram, Principal of Catalyst, conducted the COSS which showed that several rate

³⁶ Electric temperature normalization adjustments were considered in Kentucky Utilities Company rate proceeding Case No. 98-474, *Application of Kentucky Utilities Company for Approval of an Alternative Method of Regulation of its Rates and Service*, January 7, 2000 Order (Ky. PSC Jan 7, 2000) and in the Louisville Gas & Electric Company in the proceedings Case No. 8284, Case No. 8616, Case No. 8924, Case No. 10064, and Case No. 98-426, *Louisville Gas and Electric Company for Approval of an Alternative Method of Regulation of its Rates and Service*, January 7, 2020 Order (Ky PSC Jan 7, 2000). In each of these proceedings, the Commission denied the adjustment, noting that the companies had failed to adequately support the adjustment. In Case Nos. 98-474 and 98-426, the Commission expressed concern about the use of 20-year average degree days rather than a 30-year average, noting that “previous electric weather normalization adjustments proposed in the LG&E rate cases were based on a 30-year average. The 30-year average is typically used in gas weather normalization adjustments.” In Case No. 10064, the Commission expressed concern that LG&E did not construct a “confidence interval” for temperature adjustment purposes. The Commission observed that LG&E “adjusted each month’s actual billing-cycle temperature-sensitive load to a mean determined temperature-sensitive load instead of to a temperature-sensitive load determined by the boundaries of a range of acceptable values constructed around the mean.” The Commission also expressed concern about the accuracy of the billing-cycle degree days used in the temperature normalization adjustment. Additionally, the Commission criticized LG&E’s adjustment because it did not rely on a regression model to adjust test-year sales and only analyzed one variable. The adjustments proposed by LG&E in Case Nos. 8284 and 8616 were developed without relying on any sort of statistical analysis. Temperature-sensitive load was estimated by first selecting a single month to calculate a base load level and then all sales during the summer months above that base load level were considered to be the temperature-sensitive load. The Commission rejected the methodologies proposed in those proceedings.

³⁷ See Rebuttal Testimony of John Wolfram at 4-5.

classes warranted increases.³⁸ Regarding the residential class, the COSS supported a residential customer charge of up to \$43.21.³⁹ Big Sandy chose to gradually move towards the cost-based rates and not seek the entire \$43.21 customer charge that was supported. Instead, Big Sandy proposed to increase the current customer charge of \$21.95 to \$29.00 to make the increase more incremental and manageable for its customers.⁴⁰

In addition, Big Sandy distributed the required rate increase more heavily in the customer charge, as opposed to the energy charge, consistent with the COSS, and would create the least negative impact to economically vulnerable members. Applying more of the rate increase to the customer charge, which is fixed, means that it is the least volatile option and based upon Big Sandy's experience, members who can least afford an increase use more energy due to poorly insulated homes which use more energy. Although the COSS supported much more of an increase, Big Sandy elected not to move the customer charge to the full cost-based rate in order to make the rate increase more gradual and remain sensitive to the economic demands on vulnerable members.

The Attorney General has questioned the increase in the customer charge throughout the proceedings.⁴¹ However, the Attorney General did not provide any evidence in written testimony, responses to requests for information, or hearing testimony that the COSS was incorrect or should not be utilized by the Commission. Instead, the Attorney General placed great weight on the fact that Big Sandy would be the only cooperative with a customer charge around \$30.00. However, it is worth noting that the Commission has multiple pending rate cases where a cooperative is

³⁸ Application, Exhibit 10, Direct Testimony of John Wolfram, at 19.

³⁹ Application, Exhibit 10, Direct Testimony of John Wolfram, at 19.

⁴⁰ Application, Paragraph 5.

⁴¹ Big Sandy's Responses to the Attorney General's First Request for Information, Item 16 and Item 20.

making similar requests due to increasing economic pressures felt by individuals and cooperatives alike.⁴² Also, Big Sandy’s costs are not dependent upon or directly affected by the rates of other utilities. The COSS took into consideration the intricacies of Big Sandy’s system and produced a just and reasonable cost required to service customers on that system.

The Commission previously stated, regarding the residential customer charge, “...for an electric cooperative that is strictly a distribution utility, there is merit in providing a means to guard against revenue erosion that often occurs due to the decrease in sale volumes that accompanies poor regional economies, changes in weather patterns and the implementation or expansion of demand-side management and energy-efficiency programs.”⁴³ This philosophy from the Commission encapsulates Big Sandy’s approach to determining what the customer charge should be in this case. Big Sandy reviewed the COSS and then, while considering the economy of the region, determined to request a residential customer charge of \$29.00 instead of the full amount supported by the COSS.

The Attorney General is also making an unwarranted comparison between cooperatives. Big Sandy did not arbitrarily choose a customer charge of \$29.00. Big Sandy engaged a consultant to perform a COSS. The results of the COSS supported a customer charge of over \$40 based upon the actual costs to serve members on Big Sandy’s system. Aware of the economic realities of its service area, Big Sandy chose to request a \$29.00 customer charge. Another cooperative could perform a COSS that shows a customer charge much higher or lower than what Big Sandy is

⁴² Case No. 2024-00085, *Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment of Rates and Other General Relief* (filed May 1, 2024); Case No. 2024-00351, *Electronic Application of Shelby Energy Cooperative, Inc. for a General Adjustment of Rates* (filed December 5, 2024); Case No. 2024-00287, Case No. 2024-00211, *Electronic Application of Licking Valley Rural Electric Cooperative Corporation for a General Adjustment of Rates and Other General Relief* (filed August 8, 2024).

⁴³ 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*, October 3, 2023 Order (Ky PSC Oct. 3, 2023).

proposing, but those costs are not Big Sandy's costs. The Commission must examine the COSS for Big Sandy, that is undisputed, in this proceeding to determine the customer charge.

III. Big Sandy's Use of 2.0 TIER Calculation is Reasonable and Should Be Accepted by the Commission

For decades, virtually every electric distribution cooperative appearing before the Commission seeking rate relief based its underlying request on the ability to earn revenues sufficient to achieve a 2.00 TIER. Big Sandy is no different. The Attorney General inexplicably requested that the Commission abandon decades of precedent and only authorize a 1.85 TIER.⁴⁴ A 1.85 TIER is unreasonable because it does not account for financial contingencies or other financial metrics. If the Commission were to authorize a TIER lower than 2.00, Big Sandy would have less cash working capital, impairing Big Sandy's ability to respond to any unforeseen expenses. As the Commission is aware, even though Big Sandy's rates are currently set to achieve a 2.0 TIER, Big Sandy does not achieve a 2.0 TIER. In fact, Big Sandy has not achieved a 2.0 TIER in many years and in 2024 the TIER was -0.14.⁴⁵ Decreasing the TIER will put Big Sandy in jeopardy of not meeting its debt covenant requirements. If the Commission were to deviate from the 2.00 TIER it would be abandoning many years of precedent that cooperatives have come to rely upon.⁴⁶ Big Sandy's use of 2.0 TIER calculation is reasonable in this case, is supported by precedent, and should be accepted by the Commission.

⁴⁴ Direct Testimony of Gregory Meyer at 26-27 and HVT at 12:35:06.

⁴⁵ Big Sandy's Response to Commission Staff's Post-Hearing Request for Information, Item 19 (filed February 28, 2025).

⁴⁶ Case No. 2023-00223, *Electric Application of Fleming-Mason Energy Cooperative, Inc. for a General Adjustment of Rates*, June 28, 2024 Order at 16 (Ky. PSC June 28, 2024) citing historical cases utilizing a 2.00 TIER.

CONCLUSION

Big Sandy’s proposal in this case is based upon a comprehensive and reliable COSS employing both known and measurable changes to the test year. It is fair, just and reasonable both in terms of the revenue request and the rate design. Big Sandy respectfully requests the Commission enter a final order adopting its request in full, including the recovery of rate case expense amortized over a three-year period.

This 5th day of March, 2025.

Respectfully submitted,

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CERTIFICATE OF SERVICE

This is to certify that the electronic filing was transmitted to the Commission on March 5, 2025 and that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding. Pursuant to the Commission's July 22, 2021 Order in Case No. 2020-00085 no paper copies of this filing will be made.

Heather S. Temple

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