COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF BIG SANDY RURAL ELECTRIC COOPERATIVE CORPORATION FOR A GENERAL ADJUSTMENT OF RATES	**)** **)** **)** **)**	**CASE NO. 2024-00287**

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
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January 3, 2025

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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. ("BAI"), 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 ("MPSC"). I was employed with the MPSC from July 1, 1979 until May 31, 2008.

I began my employment at the MPSC as a Junior Auditor. During my employment at the MPSC, I was promoted to higher auditing classifications. My final position at the MPSC was an Auditor V, which I held for approximately ten 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 MPSC, 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 MPSC, I was involved in developing transmission policy for the Southwest Power Pool ("SPP") as a member of the Cost Allocation Working Group.

In June of 2008, I joined the firm of BAI 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 BAI 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; 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 Big Sandy Rural Electric Cooperative Corporation ("Big Sandy" or "Company") filed.

A. On October 1, 2024, Big Sandy filed an application seeking approval to increase base rates by $3,457,517, to achieve a Times Interest Earned Ratio ("TIER") of 2.0.[1] Big

[1]Application, paragraph 4. While the application itself requests an increase to rates of $3,457,517, the accompanying workpapers included in John Wolfram's Exhibit JW-2, specifically page 1, shows a requested increase of $3,458,483. Thus, in calculating a revenue requirement, I will begin with John Wolfram's $3,458,483.

Sandy filed the direct testimony of three witnesses. Big Sandy has approximately 12,733 member customers.[2] Big Sandy stated in its Application that it must seek a general increase in its rates to produce sufficient revenues to align with the cost of providing safe and reliable service.[3]

Q. Do you believe an increase in Big Sandy's revenues of approximately $3.5 million will result in just and reasonable rates for Big Sandy's members?

A. No. I believe that the base rate increase proposed by Big Sandy is overstated. I have prepared Table GRM-1 that shows the adjustment I am proposing that reduces the revenue increase sought by Big Sandy.

[2] *Id*., paragraph 1.
[3] *Id*., paragraph 25.

Table GRM-1

Revenue Requirement Adjustments

Line	Description	Amount (1)
1	Company Proposed Revenue Requirement[1]	$ 3,458,483
2	Company Proposed Update (Line 3 - Line 1)	$ (65,776)
3	Company Proposed Updated in Response to OAG Data Request 2-26[2]	$ 3,392,707
4	Company Correction of Error to Labor Adjustment in Response to Staff Data Request 3-3[3]	$ (73,409)
5	Company Proposed Updated Revenue Requirement 12/20/24 (Line 3 + Line 4)	$ 3,319,297
	OAG Adjustments:	
6	TIER	$ 134,706
	Rate Revenue:	
7	Customer Annualization	$ 349,801
8	Usage Normalization	$ 6,840
9	Total Rate Revenue	$ 356,642
10	Overtime	$ 41,605
11	Healthcare Costs	$ 78,488
12	Right of Way	$ 462,172
13	Retirement Benefits	**TBD**
14	Depreciation	$ 248,138
15	Total OAG Adjustments	$ 1,321,750
16	OAG Proposed Revenue Requirement (Line 5 - Line 15)	$ 1,997,548

Source:
[1]Company Application Exhibit JW-2 Page 1.
[2]Company Response to OAG Data Request Set 2, Question 26.
[3]Company Response to Staff Data Request Set 3, Question 3.

III. CORRECTIONS

Q. Has the Company offered a correction to its revenue requirement filing?

A. Yes. In Response to OAG Data Request Set 2, Question 26, the Company provided an updated revenue requirement filing that included corrections to the directors' fees and

the wages and salaries adjustments. This updated filing reduced the originally requested revenue deficiency of $3,458,483 by $65,776. The updated revenue deficiency noted in Big Sandy's filing is now $3,392,707.

Q. Did the updates to the wages and salaries address all of the corrections necessary to the pro forma regular time wages?

A. No. In the original revenue requirement filing wages and salaries adjustment, the Company had mistakenly increased the revenue requirement by the total increase to cost, which includes costs that will be booked to capital (plant-type) accounts, rather than just an increase to Operations and Maintenance ("O&M") expense. The capitalized wages and salaries will be recovered through depreciation in future rate proceedings like other plant additions. The above-referenced update made no changes to the adjustment worksheet, but corrected the cell reference in the adjustments tab of Mr. Wolfram's revised revenue requirement exhibit to capture only the increase to O&M expense.

There are still mistakes in Big Sandy's calculation of the pro forma wages and salaries. The Company made note of these corrections in response to the Staff's Data Request Set 3, Question 3, but did not incorporate these corrections into the updated revenue requirement in its response to OAG Data Request Set 2, Question 26. The new wages and salaries worksheet provided in response to the Staff's Data Request Set 3, Question 3 corrected the regular time wages and salaries for the part-time and summer employees, so that their wages were not calculated on the standard annual full-time hours worked of 2,080 hours per employee, but were instead kept at part-time hours.

This correction reduces the overall wages and salaries cost (including both costs to be capitalized and O&M expense) by $108,848. The expense portion of wages and salaries is reduced by $73,409. This correction also needs to be reflected in any final Big Sandy revenue requirement.

IV. SALES REVENUE

Q. Have you reviewed the year-end customer revenue adjustment proposed by Big Sandy?

A. Yes, I have. Big Sandy proposes to reduce net margins by $13,948 to reflect the overall loss of customers during the test year ended December 31, 2023.

Q. Do you agree with the adjustment proposed by Big Sandy?

A. Generally I agree with the approach utilized by Big Sandy. However, I am opposed to rounding the average customer number levels for purposes of calculating the lost revenues. By rounding the average customer numbers, the effect on the lost revenues claimed is overstated.

Q. Please describe your proposed adjustment to account for declining customers.

A. I replicated the adjustment proposed by Big Sandy to account for customer levels at the end of the test year. However, instead of rounding that level of customers to a whole number, I used the actual level of customers recorded in the test year. By rounding the level of customers to whole customer numbers, Big Sandy is overstating the overall loss of revenues at year-end levels of customers.

Q. Can you provide an example?

A. Yes. For Schedule A-1 customers (Farm & Home), Big Sandy calculated a 1 customer growth level based on the end-of-year level of customers compared with the average customer levels through 2023.[4] For the Schedule A-1 customers, the average level of customers during the test year was 11,593.58 customers (139,123/12 = 11,593.58). When comparing the average customer level during the test year to the year-end level of customers, 11,595, there is a 1.42 growth in customers through the test year. However, Big Sandy's methodology only recognizes a single customer growth (1 customer) by rounding the 11,593.58 up to 11,594 and subtracting that level from the year-end customer level of 11,595. Big Sandy's methodology in this instance understates year-end customer revenues. By correcting the methodology for all customer classes, Big Sandy's proposed net income adjustment of $13,948 is reduced to $7,108, a difference of $6,840 that lowers Big Sandy's revenue requirement by the same amount.

Q. Do you have any other concerns with the level of base revenues included in this rate case?

A. Yes, I believe the level of base revenues for the Schedule A-1 customer class is significantly understated. The Schedule A-1 class is impacted by weather in both the winter (winter heating) and the summer (air conditioning load). I will show that during

[4]See John Wolfram's Exhibit JW-2, Reference Schedule 1.05. While the year column indicates that these numbers are from 2022, the title of the worksheet notes that the data is for the twelve months ended December 31, 2023.

2023 the weather in the Big Sandy service territory was mild, thus, reducing consumption from the Schedule A-1 customer class below normal levels.

Q. Have you reviewed the historical usage for Big Sandy's customers by month?

A. Yes, I have, and I have prepared Table GRM-2 below that shows the monthly usage (kilowatthour ("kWh")) for Big Sandy from 2019-2023.

Table GRM-2

Monthly Kilowatt Hours

Year	2019	2020	2021	2022	2023
	(1)	(2)	(3)	(4)	(5)
Jan	26,278,177	22,783,722	26,015,120	29,085,165	22,143,092
Feb	19,382,061	21,403,818	22,833,242	21,888,256	18,165,185
Mar	21,032,046	17,157,011	18,354,072	18,424,001	18,511,110
Apr	14,420,859	15,167,380	15,514,472	14,872,372	14,042,466
May	15,585,965	15,685,210	14,590,246	14,664,181	13,977,447
Jun	16,061,625	16,422,375	16,917,175	17,019,764	14,726,764
Jul	20,118,070	21,306,749	19,069,822	19,464,743	18,786,975
Aug	18,936,422	19,093,052	19,297,141	18,771,407	17,555,314
Sep	17,073,244	15,084,046	14,837,875	14,443,233	14,408,761
Oct	14,751,173	13,966,253	14,255,487	15,288,791	13,930,902
Nov	21,102,052	17,833,925	20,590,467	19,039,906	18,775,325
Dec	22,841,258	25,531,153	20,363,962	25,358,335	22,088,404
Total	227,582,952	221,434,694	222,639,081	228,320,154	207,111,745

Source:
Company Annual Reports from 2019 to 2023.

As can be seen from Table GRM-2, increased usage is recorded in both the winter and summer months. This increased usage can most likely be traced to residential customers as they are the most responsive to weather. This would lead one to believe that residential customers rely on electric heating during the winter months

and air conditioning during the summer months to heat and cool their homes. Due to this, the residential class is directly impacted by weather. In other words, during a very cold winter season, customers will use more electricity to heat their homes. Similarly, during a hot summer season, residential customers will use more electricity to cool their homes. Referring to Table GRM-2, the usage in December and January are the highest months of usage and the usage during July is generally higher than the rest of the summer months.

Q. How can you quantify the impact weather has on base revenues?

A. Weather is typically measured by looking at Heating Degree Days ("HDD") for winter usage and Cooling Degree Days ("CDD") for summer usage. An HDD is the difference between the average temperature during a winter day and base of 65 degrees. In other words, if the average temperature during a winter day is 35 degrees, that day would produce 30 HDDs (65-35). HDDs are totaled for the entire winter period and used to measure the severity of winter weather. The higher the degree days, the more electricity is assumed to be used to heat homes. Conversely, a small number of HDDs indicates a mild winter and less usage from customers to heat their homes.

The same theory applies for CDDs. If the average temperature during a summer day is 85 degrees, 20 CDDs are generated (85-65). Higher totals for CDDs indicates warmer weather which translates into higher usage from customers cooling their homes and, thus, higher electric base revenues for the cooperative. Conversely, milder summer temperatures will generate less CDDs and will translate into less revenues for the cooperative.

Q. Have you tracked the HDDs and CDDs applicable to Big Sandy?

A. Yes. I have prepared Table GRM-3 below that shows the HDDs and CDDs for Big Sandy from 2014-2023. Table GRM-3 indicates that during 2023, the winter period (HDDs) was milder than previous years and the summer period (CDDs) was also milder than the majority of the previous years.

Table GRM-3

Degree Days

Year	HDD Base 65 (1)	CDD Base 65 (2)
2014	5,112	829
2015	4,447	1,037
2016	4,335	1,261
2017	4,018	929
2018	4,682	1,370
2019	4,251	1,222
2020	4,168	1,037
2021	4,358	1,049
2022	4,659	1,005
2023	3,944	841

Source:

Calculated from daily summaries from the National Oceanic and Atmospheric Administration at Station USC00156136 in Paintsville, KY.

For HDDs, the 2023 level of HDDs was the lowest level for the time period that I reviewed dating back to 2014. This clearly indicates that the level of Big Sandy's base revenues for winter usage is understated for the 2023 results. Thus, Big Sandy's

residential member customers did not have to use as much electricity to heat their homes in 2023 as they have in the past.

For CDDs, the story is very similar. The 2023 level of CDDs is the second lowest level dating back to 2014. This indicates that the level of Big Sandy's base revenues for summer usage is also understated for the 2023 results. Big Sandy's residential member customers used less electricity to cool their homes in 2023 than in all years prior to 2023, except for 2014.

When both HDDs and CDDs are combined it is evident that Big Sandy's base revenues for 2023 are understated due to milder winter and summer weather.

Q. Why is it important to adjust 2023 base revenues for Big Sandy?

A. If base revenues are not increased due to milder winter and summer weather in 2023, then Big Sandy's rates will be increased subject to a level of revenues that does not represent normal weather. Milder winter and summer weather results in less kWh sold to Big Sandy's customers. If in the next year, Big Sandy has normal winter and summer weather, then Big Sandy will sell more kWh of electricity due to higher usage during both the summer and winter periods. It is not fair to Big Sandy's customers to set rates based on abnormally mild weather. Nor would it be fair to Big Sandy to set rates based on extremely cold winters and hot summers. Customer rates should be based on normalized weather.

Q. Given the HDD and CDD results you discussed earlier, how do you propose to adjust Big Sandy's revenues?

A. I propose to adjust Big Sandy's Schedule A-1 base revenues by utilizing a five-year kWh average usage per customer (13.54 annual kWh consumption, shown in Table GRM-4 below) multiplied by the year-end customer level of 11,595 customers to derive a kWh adjustment of 14,134,677.

Table GRM-4

Usage (MWh) per Customer

Year	Residential
2019	13.83
2020	13.65
2021	13.61
2022	14.03
2023	12.59
5 Year Average	13.54

Source:
Annual Reports for Years 2014 to 2023.

I priced this level of revenues recognizing a fuel component as well. My proposed adjustment would increase Schedule A-1 revenues, less fuel, by $349,801 and, thereby, decrease Big Sandy's revenue requirement by the same amount.

V. DEPRECIATION

Q. Have you reviewed the Company's proposal to increase depreciation expense?

A. Yes, I have. Big Sandy is proposing to increase depreciation expense by $376,017.

Q. Do you have any concerns with the proposed increase in depreciation expense?

A. Yes. The $376,017 increase is mostly impacted from an increase in Account 392 – Transportation depreciation expense ($248,138). I have several issues with the increase in Account 392 – Transportation that I list below:

- The depreciation rate applied to Account 392 is not consistent with the rate contained in the 2008 Commission rate order of 16%.
- The clearing amount is significantly lower than previous years' clearing amounts. I will discuss the concept of depreciation clearing in this section.
- Dating back to 2008, I will show that by utilizing the correct depreciation rate (16%), Account 392 is over-accrued at 2023 and, therefore, should not have any depreciation charged to this account in the pending rate case.

I will discuss each of these issues in the next sections of my testimony.

Q. Please discuss your argument that the proper depreciation rate for Account 392 is 16%.

A. I have reviewed and attached as Exhibit GRM-1 two pages from Big Sandy rate cases, Case No. 2008-00401[5] and Case No. 2012-00030.[6] These cases contained a depreciation schedule that showed the requested/approved depreciation rate for Account 392 – Transportation being 16%. In addition, in the pending rate case, Big Sandy relied on the results from the 2007 depreciation study that addressed distribution plant, but did not include a depreciation discussion for transportation equipment.

[5]Case No. 2008-00401, *Application of Big Sandy Rural Electric Cooperative Corporation for an Adjustment in Rates*, Big Sandy's Application, pdf page 337 of 555.

[6]Case No. 2012-00030, *Application of Big Sandy Rural Electric Cooperative Corporation for an Adjustment of Rates*, Big Sandy's Application, pdf page 322 of 420.

Q. What is your recommendation for depreciating Account 392 – Transportation?

A. I recommend that the 16% depreciation rate continue to be applied consistent with prior Big Sandy rate cases instead of the 19.2% used by the Company in the pending case.[7] Using a 16% depreciation rate decreases depreciation expense by $74,099. This reduces Big Sandy's revenue requirement by the same amount.

Q. In your second concern with the level of depreciation expense, you stated that the amount cleared was lower than previous years. Please describe the concept of depreciation clearing.

A. Depreciation clearing is an amount of depreciation expense that is cleared to other activities, namely construction or retirement work. Clearing those expenses transfers a portion of depreciation from expense to a capitalized account of the cooperative. Since the cleared amount is included as a capital item, depreciation expense must be reduced.

Q. In the current rate case, did Big Sandy recognize any amount of depreciation expenses as being cleared to capital accounts?

A. Yes. Big Sandy proposed to clear $196,451 of Account 392 – Transportation.

Q. What is your position of the amount being proposed to be cleared?

A. I believe the level of depreciation expense to be cleared is low when compared with historical clearings. I have prepared Table GRM-5 that shows the historic levels of depreciation expense for transportation accounts.

[7] *See* John Wolfram's Exhibit JW-2, Reference Schedule 1.03, line 26.

Table GRM-5

Historical Transportation Clearing

Year	Expense
2019	$ 219,323.04
2020	$ 208,172.44
2021	$ 234,982.89
2022	$ 462,591.73
2023	$ 193,210.71
5 Year Average	$ 263,656.16

Source:
Big Sandy Annual Reports for 2019 to 2023.

As can be seen from Table GRM-5 above, the amount cleared to capital activities has been much larger in the past. I propose to calculate a five-year average of the cleared amount for purposes of this rate case. A five-year average would reduce depreciation expense by $70,445, and this would also reduce the Big Sandy revenue requirement by $70,445.

Q. Finally, please discuss your position that Account 392 – Transportation is fully depreciated.

A. I have performed a historic depreciation calculation for Account 392 – Transportation. The calculation is attached as Exhibit GRM-2 to my direct testimony. This calculation shows that Account 392 would be over-accrued for the test year in this rate case by

approximately $674,000. The over-accrual, according to Exhibit GRM-2, started in 2018.

Q. Please explain the calculations contained in Exhibit GRM-2.

A. Exhibit GRM-2 starts with the Original Cost of Transportation Account 392 at the beginning of the calendar year. The transportation depreciation rate of 16% is applied to that total. To that annual depreciation expense total, transportation plant additions and plant retirement for the calendar year are netted. Half of that total is multiplied by the 16% depreciation rate recognizing plant additions and retirements for a half-year convention.[8] The depreciation expense for the plant additions/retirements are then added/subtracted from the annual depreciation expense calculated previously to derive annualized depreciation expense at year-end. Annualized depreciation expense is then added to the Accumulated Depreciation Reserve Balance from the previous year. Accumulated Depreciation Reserve balance is also adjusted for the retirements. Netting the Original Plant-In-Service Balance for the current year, reflecting plant additions/retirements, produces the Net Plant Balance for the Transportation Account. Repeating this exercise for all years from 2009-2023 reveals that Account 392 – Transportation has been fully depreciated since 2018.

Q. What is the consequences of having an entire account being fully depreciated?

A. An account that has become fully depreciated should not reflect any depreciation expense in its cost of service until that account has new investment recorded. In this

[8]A half-year convention is an assumption that assets were only in-service for half of the year. This assumption is a common approach and is also used by the IRS in calculating tax depreciation.

instance, zero depreciation expense should be included in cost of service for Account 392. This would reduce Big Sandy's depreciation expense incrementally from the other two concerns I raised by an additional $103,594. However, it should be noted that if the Commission accepts my argument that Account 392 is fully depreciated, then my previous two issues on depreciation are moot and the entire $248,138 of depreciation expense for Account 392 should be eliminated.

VI. OVERTIME WAGES

Q. Have you reviewed the calculation of pro forma overtime wages included in Exhibit JW-2, Reference Schedule 1.10?

A. Yes, I have.

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

A. For the pro forma overtime, Big Sandy witness Mr. Wolfram multiplies the number of overtime hours worked by each employee during the test year by the adjusted pro forma wage rates multiplied by 1.5 to calculate the overtime dollars paid during the test year.[9]

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. Mr. Wolfram calculates that the total overtime cost is $356,613.[10] This is a mere $112 difference from the overtime cost actually recorded in 2023.[11]

[9] *See* Big_Sandy_2023_Rev_Req-Updated-AG-2-26.xlsx.
[10] *Id*.
[11] *See* Big Sandy's response to Staff Data Request 1-33, as shown in the file Response_33-Schedule_I.xlsx. $356,725 – $356,613 = $112.

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

A. No, I do not. My concern is with the overall amount of test year overtime wages. In OAG Data Request 1-61 and Staff Data Request 1-33, Big Sandy 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-6 below.

Table GRM-6

Overtime Wages By Year

Year	Amount
2019	$ 208,933
2020	$ 222,118
2021	$ 367,049
2022	$ 319,792
2023	$ 356,725
5 Year Average	$ 294,923

Sources:
2019: Response to OAG DR 1-61
2020-2023: Response to Staff DR 1-33, Schedule I

The $356,725 in test year overtime cost (as recorded) exceeds all but one of the prior four calendar years. There was no analysis provided to show that maintaining an already high level of overtime costs is reasonable.

Q. What is your proposal for overtime wages?

A. Since overtime in a given period is a complex mix of varying 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 – a multi-year average period will capture the mix of those factors for normalizing overtime. Looking back over the past five years (as shown in Table GRM-6 above), it is evident that the overtime costs fluctuate up and down rather than lining up in a clearly discernable trend – this further supports an averaging approach. Therefore, I propose that overtime costs be set at $294,923 (the five-year average of these costs) before applying the labor capitalization rate. This reduces pro forma overtime wages by $61,690. After applying the capitalization rate, I am proposing to remove $41,605 from the proposed revenue requirement.[12]

VII. HEALTH CARE COSTS

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

A. No. The Company has made no adjustment to the test year level of expense related to health care premiums. In 2023, Big Sandy paid $714,018 in health insurance premiums.[13] Big Sandy has a policy of covering 89.88% of employee healthcare costs for both single coverage and family coverage.[14]

[12]Big Sandy's labor capitalization rate as found on Exhibit JW-2, Reference Schedule 1.10, is 32.558%. $61,690 x (1 - 0.32558) = $41,605 in O&M expense.
[13]*See* Big Sandy's response to Staff Data Request 1-33, Schedule I.
[14]*See* Big Sandy's response to OAG Data Request 1-27e and g.

Q. Does the Kentucky Public Service Commission ("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."[15] Given that the non-union employees pay less than the Commission standard of 12%, an adjustment is warranted.[16]

Q. What is the BLS average share of premiums paid by private industry employers for healthcare coverage?

A. The most recent data available from the BLS indicates that employers in private industry on average pay 80% of the premiums for single coverage[17] and 68% of the premiums for family coverage.[18]

Q. Using the BLS payment rates, what should test year healthcare premiums be adjusted to?

A. The Company hasn't provided a breakdown between the amount of premiums paid by coverage type (single vs. family), so using the 80% rate to be conservative, the healthcare premiums paid by Big Sandy should be reduced by at least $78,488 to an expense of $635,530.[19] I recommend that Big Sandy's revenue requirement be reduced

[15] *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 page 10.

[16] 100% - 89.88% = 10.12%. 10.12% is less than 12%.

[17] *See* https://www.bls.gov/news.release/ebs2.t03.htm.

[18] *See* https://www.bls.gov/news.release/ebs2.t04.htm.

[19] ($714,018 / 89.88%) x 80% = $635,530. $714,018 - $635,530 = 78,488.

by at least $78,488 to reflect this adjustment to healthcare premiums. However, Big Sandy should be required to provide a breakdown of premiums paid by the Company by coverage level (single vs. family) in order to properly calculate this adjustment.

VIII. 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 Financial Management: Theory and Practice, page 1,044, 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 ensure solvency and reduce the default risk on loans.

Q. Does Big Sandy have loans with a TIER condition?

A. Yes. Per the Company's Response to the OAG's Data Request 1-26(a), "[t]he average Coverage Ratios in the 2 best years out of the 3 most recent calendar years must not be less than any of the following: TIER=1.25 [, and] OTIER=1.1."

Q. Has Big Sandy 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 2017, 2023, and 2024 through September. I have summarized the TIER achieved in each of these years from 2017 to present in Table GRM-7 below.

TABLE GRM-7

Times Interest Earned Ratio ("TIER")

Year	Amount (1)
2017	1.20
2018	2.75
2019	2.42
2020	2.86
2021	2.01
2022	1.63
2023	0.28
24-Sep	0.13
3 Year Average	1.31
5 Year Average	1.38
7 Year Average	1.88

Source:
Company Response to Data Request OAG Set 1 Question 15.

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

A. Per the testimony of John Wolfram, Big Sandy's revenue requirement request is predicated on a TIER of 2.0.[20]

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

A. No, Big Sandy 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.

Q. Big Sandy 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."[21] Do you believe that these concerns are valid?

A. Big Sandy 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. Additionally, the revenue requirement includes approximately $3.2 million for depreciation costs[22] which would not change during the time rates are in effect.

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

A. A 2.0 TIER mandates that an additional $898,037 be added to the Company's revenue requirement.

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[20] *See* Direct Testimony of John Wolfram at page 6, lines 14-19.
[21] *See* Big Sandy's response to OAG Data Request 1-26(d).
[22] *See* the adjusted test year depreciation expense of $3,201,748 from Big Sandy's revenue requirement model.

Q. Do you agree with this TIER request?

A. No. I propose a TIER of 1.85. A TIER of 1.85 is more than sufficient to ensure the Company has necessary funds to meet its debt obligations with an adequate cushion should the cost of debt increase, while saving Big Sandy's member-owners $134,706 in revenue requirement.[23]

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…"[24]

IX. RIGHT OF WAY EXPENSES

Q. Have you read the direct testimony of John Wolfram as it relates to Big Sandy'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 Big Sandy requesting for ROW costs?

A. The Company is requesting approximately $2.06 million in ROW expenses. This represents an increase of $698,996 over the costs recorded for the 2023 test year.

[23] A 1.85 TIER has a revenue requirement impact of $763,332. $898,037 – 763,332 = $134,706.

[24] 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 page 18.

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

A. In response to the Commission Staff's Data Request 2-11, Big Sandy provided the calculation for its proposed $2.06 million ROW expense. The Company premises its request on the 2024 estimated costs for circuit maintenance and removals at a cost per mile of $11,045. Big Sandy then extrapolates this to cover 138 miles, which is the amount of miles required to be maintained if the Company is to achieve compliance with its policy of a seven-year maintenance cycle at a cost of approximately $1.5 million. In addition to these cycle trimming costs, the Company estimates $300,000 in spot maintenance and $100,000 for 40 hours of helicopter trimming. In addition to these costs, Big Sandy estimates that it will spend $121,000 on herbicide and $10,000 for tree growth regulators for 2024.

Q. Do you support this level of ROW expense?

A. No, I do not. Based on the Company's history of the past six years, there is no reasonable basis to believe that Big Sandy is capable of meeting their target of providing ROW coverage for 138 miles per year. In the OAG's Data Request 1-44, Big Sandy was asked to provide the ROW's annual budgeted and actual expense levels as well as number of miles trimmed from 2017 through 2024. When Big Sandy described the budgeting process, it was shown that the budget just determined an annual dollar spend with no definitive target number of miles to trim. Rather, "Big Sandy budgeted a dollar amount and utilized hourly work to maintain as much as possible with the budget amount."[25] The Company was unable to provide the actual number of miles trimmed

[25] *See* Big Sandy's response to OAG Data Request 1-44(c).

in the years 2017 and 2018. For the years 2019 through November 30, 2024, the actual annual miles covered fell far short of the proposed target of 138 miles/year. I have summarized the Company's annual ROW miles trimmed in Table GRM-8 below.

Table GRM-8

ROW Miles Trimed By Year

Year	Miles Trimmed
2017	No data
2018	No data
2019	77
2020	63
2021	54.5
2022	59.8
2023	84.67
2024*	96.3

Sources:
2017-2023: Response to OAG DR 1-44

*2024: Response to OAG DR 2-25. Represents total through November 30, 2024.

When we compare this ROW data to the TIER levels achieved (presented earlier in Table GRM-7) it should be noted that even in years where a TIER level of greater than 2.0 was achieved, Big Sandy could not meet the goal of 138 miles/year. For instance in 2019 the Company achieved a TIER of 2.42 and only managed to trim

77 miles. Additionally, without budgets designed with a specific tree trimming milage in mind, it would be difficult for a real goal of 138 miles trimmed/year to even exist.

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 Big Sandy has the capability to fully trim and treat the ROWs in accordance with its policy of a seven-year cycle. It should also be noted that if the Company receives the full $2.06 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 96.3 miles. In addition, I propose to increase this maximum mileage by 10%, for a total of 105.93 miles of trimming. With the current costs of trimming of $11,045 mile, this brings the total cost of ROW trimming and treatment to $1,169,997. To this amount, I propose to add the most recent cost of herbicide treatment ($118,026), spot maintenance ($214,770), and helicopter trimming ($90,245).[26] This totals $1,593,038 and represents a $462,172 reduction to the Company's proposed expense of $2,055,210.

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

[26]Data taken from the 2024 costs presented in Big Sandy's response to OAG Data Request 2-25, reported as of November 30, 2024.

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

A. Yes. First and foremost, I would recommend that the Commission encourage Big Sandy to review its budgeting process for ROW expenses and establish defined trimming goals every year. This makes it easier to hold managers accountable to the members and should result in more transparent budgets.

Secondly, I would propose that if the Commission grants the funds identified by Big Sandy to trim 138 miles, Big Sandy should be required to file an annual reconciliation report with the Commission. The reconciliation would detail the amount of miles trimmed and would show why additional miles could not be trimmed. The reconciliation should identify the amount of the funds that exist from the extra cushion above the required minimum TIER coverages, and whether Big Sandy spent any of these funds or the ROW funds for items not included in the cost of service or approved by the Commission for ratemaking purposes (i.e., promotional advertising, dues, excess healthcare premium contributions, awards, etc.). This reconciliation report will provide valuable information to the Commission and the rate case parties, including Big Sandy's members, as to why ROW maintenance trim targets are not being achieved.

X. RETIREMENT BENEFITS

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

A. Yes, as noted in the response to OAG Data Request Set 1, Number 61 and Staff Data Request Set 1, Number 33, (Schedule I), the Company offers both a defined contribution plan (401(k) plan) and a defined benefit plan (pension plan).

Q. Are there employees who are eligible to participate in both a defined benefit and a defined contribution plan?

A. Big Sandy's responses to the OAG or Staff's discovery requesting this information were not sufficiently detailed to determine this. I ask that the Commission require Big Sandy to indicate if there are employees who participate in both the defined benefit and defined contribution plans and, if so, how much Big Sandy pays for each plan related to these specific employees.

Q. Does the Commission have precedent regarding the amount of retirement benefits expense 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.[27] 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.

[27]Case No. 2016-00169, *Application of Cumberland Valley Electric, Inc. for a General Adjustment of Rates* (Ky. PSC, Feb. 6, 2017), Order at page 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 pages 19-20.

Q. What is your recommendation for retirement benefits expense?

A. Consistent with the Commission's precedent, if there are employees who participate in both retirement plans, I would propose to remove the expense associated with the least expensive retirement plan from Big Sandy's proposed revenue requirement.

Q. Does this conclude your direct testimony?

A. Yes, it does.

Big Sandy Rural Electric Cooperative
Case No. 2008-00401
August 31, 2008

Schedule 3
page 2 of 6

Account Number	Description	Test Year Balance	Rate	Normalized Expense	Test Year Expense	Exclude Items Fully Depreciated
	Distribution plant:					
362	Station equipment	353,139	2.86%	10,100	11,654	
364	Poles, towers & fixtures	11,182,117	4.99%	557,988	367,442	
365	Overhead conductors & devices	9,967,467	4.84%	482,425	327,687	
366	Underground conduit	290,134	4.84%	14,042	8,945	
367	Underground conductor & devices	235,933	3.13%	7,385	7,292	
368	Line transformers	5,532,409	3.45%	190,868	181,236	
369	Services	3,859,904	4.02%	155,168	129,616	
370	Meters	3,195,611	6.67%	213,147	109,129	
371	Installations on customer premises	1,899,105	4.09%	77,673	59,310	
		36,515,819		1,708,797	1,202,311	
	General plant:					
389	Land	50,000				
390	Structures and improvements	678,937	2.50%	16,973	16,946	
391	Office furn and eqt	424,736	6.00%	25,484	27,932	
392	Transportation	1,256,062	16.00%	129,876	172,982	444,338
394	Tools, shop and garage	61,134	5.00%	2,881	3,508	3,507
395	Laboratory	127,568	5.00%	6,312	7,735	1,325
396	Power operated	31,966	14.00%	3,709	1,372	5,475
397	Communications	57,723	7.00%	2,780	4,613	18,013
398	Miscellaneous	34,305	5.00%	1,518	2,058	3,952
		2,722,431		189,533	237,146	
	Total electric plant	39,238,250		1,898,330	1,439,457	

Items that are fully depreciated are removed from the ending balance to compute test year depreciation.

Exhibit 3
page 2 of 6
Witness: Alan Zumstein

Big Sandy Rural Electric
Case No. 2012-00030
August 31, 2011
Depreciation Adjustment

Account Number	Description	08/31/11 Balance	Rate	Normalized Expense	Test Year Expense	Items Fully Depreciated
Distribution plant:						
362	Station equipment	354,439	2.86%	10,137	10,103	
364	Poles, towers & fixtures	12,486,547	4.99%	623,079	613,335	
365	Overhead consuctors & devices	11,292,719	4.84%	546,568	535,755	
366	Underground conduit	417,110	4.84%	20,188	18,892	
367	Uuderground conductor & devic	295,032	3.13%	9,235	8,679	
368	Line transformers	6,029,423	3.46%	208,618	205,740	
369	Services	4,371,436	4.02%	175,732	172,809	
370	Meters	3,262,768	6.67%	217,627	213,003	
371	Security lights	2,030,390	4.09%	83,043	82,023	
		40,539,864		1,894,225	1,860,339	
General plant:						
389	Land	292,419				
390	Structures and improvements	877,602	2.0%	17,552	17,819	0
391	Office furniture and equipment	389,511	6.0%	22,843	22,602	8,792
392	Transportation equipment	1,505,814	16.0%	201,836	196,829	244,338
394	Tools, shop and garage	66,546	5.0%	3,152	3,210	3,507
395	Laboratory	124,728	5.0%	6,170	6,177	1,325
396	Power operated equipment	31,966	14.0%	0	0	31,966
397	Communication	64,452	7.0%	1,151	726	48,013
398	Miscellaneous	34,072	5.0%	1,596	1,692	2,152
		3,387,110		254,300	249,055	
	Total electric plant	43,926,974		2,148,525	2,109,394	

Items that are fully depreciated are removed from the ending balance to compute test year depreciation.

Big Sandy RECC

Recalculated Accumulated Depreciation Balance For Transportation

Year	Original Cost Beg. Year	Additions	Retirements	Net Additions	Original Cost End Year	Depreciation Expense	Accum. Depre.	Future Accruals
	(1)	(2)	(3)	(4) = (2) - (3)	(5) = (1) + (4)	(6) = (1) x 16% + (4) x 16% x 0.5	(7) = Prior Year + (6) - (3)	(8) = (5) - (7)
2008	$ 1,279,582	$ 19,582	$ 43,102	$ (23,520)	$ 1,256,062	$ 202,851	$ 901,211	$ 354,850
2009	$ 1,256,062	$ 281,180	$ 83,984	$ 197,196	$ 1,453,258	$ 216,746	$ 1,033,972	$ 419,285
2010	$ 1,453,258	$ 197,285	$ 144,033	$ 53,252	$ 1,506,510	$ 236,781	$ 1,126,721	$ 379,789
2011	$ 1,506,510	$ 227,829	$ 199,009	$ 28,820	$ 1,535,330	$ 243,347	$ 1,171,059	$ 364,270
2012	$ 1,535,330	$ 116,252	$ 126,295	$ (10,043)	$ 1,525,287	$ 244,849	$ 1,289,614	$ 235,674
2013	$ 1,525,287	$ 87,950	$ 92,157	$ (4,207)	$ 1,521,081	$ 243,709	$ 1,441,166	$ 79,914
2014	$ 1,521,081	$ 189,067	$ 252,682	$ (63,615)	$ 1,457,466	$ 238,284	$ 1,426,769	$ 30,697
2015	$ 1,457,466	$ 319,403	$ 63,362	$ 256,042	$ 1,713,508	$ 253,678	$ 1,617,085	$ 96,423
2016	$ 1,713,508	$ 305,273	$ 347,422	$ (42,150)	$ 1,671,358	$ 270,789	$ 1,540,452	$ 130,906
2017	$ 1,671,358	$ 414,916	$ 107,062	$ 307,854	$ 1,979,212	$ 292,046	$ 1,725,435	$ 253,777
2018	$ 1,979,212	$ 30,402	$ 67,230	$ (36,829)	$ 1,942,383	$ 313,728	$ 1,971,932	$ (29,549)
2019	$ 1,942,383	$ 257,753	$ 229,281	$ 28,472	$ 1,970,855	$ 313,059	$ 2,055,711	$ (84,855)
2020	$ 1,970,855	$ 383,157	$ 33,140	$ 350,017	$ 2,320,872	$ 343,338	$ 2,365,909	$ (45,037)
2021	$ 2,320,872	$ 48,226	$ 199,089	$ (150,863)	$ 2,170,009	$ 359,271	$ 2,526,091	$ (356,081)
2022	$ 2,170,009	$ 339,549	$ 229,411	$ 110,138	$ 2,280,147	$ 356,013	$ 2,652,692	$ (372,545)
2023	$ 2,280,147	$ 65,940	$ 30,522	$ 35,418	$ 2,315,565	$ 367,657	$ 2,989,827	$ (674,262)

Sources:

Original cost, additions and retirements are found in each year's annual reports to the Kentucky PSC.

2008 accumulated depreciation calculated as the balance found in Exhibit 3, page 6 from 2008-00401 application (PDF page 341 of 555), which is the balance as of August 31, 2008, plus four months of depreciation expense - calculated by taking the depreciation expense from column 6, dividing by 12 to get the monthly expense, then multiplying the monthly expense by four to get the remaining four months of expense for 2008.

16% depreciation rate was requested on Schedule 3, page 2 from 2008-00401 application (PDF page 337 of 555).

AFFIDAVIT

STATE OF MISSOURI)

COUNTY OF ST. LOUIS)

GREG R. MEYER, being duly sworn, deposes and states: that the attached is his sworn 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 3rd day of January, 2025.

Adrienne J Navarro

Notary Public

ADRIENNE JEAN NAVARRO
Notary Public - Notary Seal
STATE OF MISSOURI
Jefferson County
My Commission Expires: Mar. 22, 2025
Commission # 21989987