

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF)	
SHELBY ENERGY COOPERATIVE)	CASE NO.
INC. FOR A GENERAL ADJUSTMENT)	2024-00351
OF RATES)	

SHELBY ENERGY COOPERATIVE, INC.’S BRIEF

Comes now, Shelby Energy Cooperative, Inc. (“Shelby Energy”), by counsel, pursuant to the Kentucky Public Service Commission’s (“Commission”) April 7, 2025 Order granting Shelby Energy and the Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention’s (“Attorney General”) request to waive a formal hearing, file simultaneous briefs, and submit the matter on the record and hereby states as follows:

INTRODUCTION

Shelby Energy’s request for a rate adjustment is necessitated by substantial increases in general operating expenses coupled with decreased energy sales due to milder temperatures leading to an untenable financial position. 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 Shelby Energy’s business operations.

Consistent with KRS 278.030(1), Shelby Energy seeks approval to increase its annual revenues by \$2,332,517.¹ This will allow Shelby Energy to achieve a Times Interest Earned Ratio

¹ Application at ¶ 4 (filed December 5, 2024).

(“TIER”) of 2.00. Shelby Energy 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 \$19.00 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, each of Shelby Energy’s assertions and claims were explored by Commission Staff and the 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, Shelby Energy 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

Shelby Energy filed its Notice of Intent to file this rate proceeding on November 1, 2024.² Shelby Energy filed its Application on December 5, 2024.³ The Attorney General was granted intervention on December 12, 2024.⁴ The Commission entered an Order on January 6, 2025, suspending the rates proposed by Shelby Energy until June 9, 2025.⁵ A Technical Conference was held on January 16, 2025, where Shelby Energy presented its Application to Commission Staff.⁶ Shelby Energy responded to five rounds of discovery from Commission Staff,⁷ and two rounds of

² Notice of Intent (filed November 1, 2024).

³ Application. Please note: the Application was filed December 5, 2024; however, due to filing deficiencies the Application was not deemed filed until December 10, 2024 when Shelby Energy’s deficiency was cured.

⁴ December 12, 2024 Order (Ky. PSC. December 12, 2024).

⁵ January 6, 2025 Order (Ky. PSC. January 6, 2025).

⁶ PSC Letter Filing IC Memo and Sign In Sheet into the Record (filed January 21, 2025).

⁷ Responses to Commission Staff’s First Data Request (filed December 19, 2024); Responses to Staff’s Second

discovery from the Attorney General.⁸ Shelby Energy now submits the following post-hearing brief in support of its position.

ARGUMENT

I. *Shelby Energy's Pro Forma Adjustments and Revenue Requirement Are Reasonable and Should Be Accepted by the Commission*

Shelby Energy attempted to manage the rising costs of providing service with a rate increase in 2023; however, this rate increase did not allow Shelby Energy to sufficiently cover the increasing costs of labor, materials, and interest expenses necessary to allow the Cooperative to meet its debt covenants.⁹ The Commission signaled that distribution cooperatives should not wait until their financial position becomes dire to request an increase in rates. Since the last adjustment of rates did not allow Shelby Energy to maintain the appropriate financial metrics, Shelby Energy and its Board of Directors took the Commission's directive and worked diligently to structure this case to strike a balance between what the cooperative needs to provide safe and reliable service at a reasonable cost to its Members and to ensure its future financial stability.

To ensure the Cooperative maintains the necessary financial metrics, Shelby Energy is requesting an increase in revenue of \$2,332,517, or 4.33%, to achieve a TIER of 2.0. This revenue requirement is proposed to be allocated by increasing the Residential Service customer charge from \$19.00 to \$29.00 and the General Service customer charge from \$23.55 to \$33.55. Shelby Energy also proposes to increase the energy charge for Residential Service from \$0.10482 to

Request (filed January 30, 2025); Responses to Staff's Third Request (filed February 27, 2024); Responses to Staff's Fourth Request (filed March 21, 2025); and Responses to Staff's DR5 (filed April 1, 2025).

⁸ Shelby Energy's Responses to the Attorney General's First Request (filed January 30, 2025) and Shelby Energy's Response to the Attorney General's Second Request (filed February 27, 2025).

⁹ Case No. 2023-00213, *Electronic Application of Shelby Energy Cooperative, Inc. for a General Adjustment of Rates Pursuant to Streamlined Procedure Pilot Program Established in Case No. 2018-407*, October 17, 2023 Order (Ky. PSC Oct. 17, 2023) and Application, Exhibit 8, Direct Testimony of Jack Bragg, at 4.

\$0.10789 and to decrease the energy charge for General Service from \$0.10349 to \$0.09144. These adjustments result in a 8.36% adjustment for Residential Service or approximately \$13.88 per month.¹⁰ Shelby Energy made pro forma adjustments that remove revenues and expenses that are addressed in other rate mechanisms, are ordinarily excluded from rates, and are non-recurring.¹¹

The Attorney General did not provide any evidence regarding the requested revenue increase or the pro forma adjustments proposed by Shelby Energy. The Commission should allow Shelby Energy to increase its annual revenues by the requested \$2,332,517. This will ensure Shelby Energy has sufficient revenue to meet its financial obligations.

II. *Shelby Energy's Rate Design is Reasonable and is Supported by The Cost-Of-Service Study*

Shelby Energy engaged the services of Catalyst Consulting LLC (“Catalyst”) to perform a comprehensive cost of service study (“COSS”) to assist Shelby Energy in designing its proposed rates. Mr. John Wolfram, Principal of Catalyst, conducted the COSS which showed that several rate classes warranted increases.¹² The COSS supported a residential customer charge of up to \$31.68¹³ Based on the results of the COSS, Shelby Energy proposed to increase the current customer charge of \$19.00 to \$29.00.¹⁴

¹⁰ Application Exhibit 4 and Application, Exhibit 5.

¹¹ Application, Exhibit 10, Direct Testimony of John Wolfram at 9 and Application, Exhibit 10, Direct Testimony of John Wolfram, Exhibit JW-2.

¹² Application, Exhibit 10, Direct Testimony of John Wolfram at 20.

¹³ Application, Exhibit 10, Direct Testimony of John Wolfram at 21.

¹⁴ Application, Paragraph 5.

Shelby Energy distributed the required rate increase more heavily in the customer charge, as opposed to the energy charge, consistent with the COSS, to create a lower negative impact to economically vulnerable members. Applying more of the rate increase to the customer charge, which is fixed, is the least volatile option. In Shelby Energy’s experience, members who can least afford an increase use more energy due to poorly insulated homes; so, placing the increase on the fixed charges will allow these members to see a lower increase than if the increase was focused on the energy charge. Although the COSS supported a higher increase, Shelby Energy 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 Commission 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.”¹⁵ This philosophy from the Commission encapsulates Shelby Energy’s approach to determining what the customer charge should be in this case.

Allowing Shelby Energy to recover more of its fixed costs through the customer charge will decrease some of the uncertainty and unpredictability that a distribution cooperative faces when revenues are not as anticipated, because of mild weather, and unexpected expenses are incurred, such as storm damage, but are not included in the budgeted expenses. Distribution cooperatives are faced with tough decisions on where to get the funds needed to pay for unexpected

¹⁵ 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).

expenses, as well as everyday expenses, to provide safe and reliable service to its members because there are no shareholders and the very small margins a 2.00 TIER allows. Shelby Energy reviewed the COSS and then, while considering the economy of the region, determined to request a residential customer charge of \$29.00.

The Attorney General did not provide any evidence or written testimony that the COSS was incorrect or should not be utilized by the Commission. The undisputed evidence in this proceeding is that the fixed costs to serve Shelby Energy's members is \$31.68. The Commission has multiple pending rate cases where a cooperative is making similar requests due to increasing economic pressures felt by individuals and cooperatives alike, signaling to the Commission, the Attorney General, and the public that distribution cooperatives are moving toward cost based rates. The COSS took into consideration the intricacies of Shelby Energy's system and produced a just and reasonable cost required to service customers on that system.

III. *Shelby Energy'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. If the Commission were to authorize a TIER lower than 2.00, Shelby Energy would have less cash working capital, impairing Shelby Energy's ability to respond to any unforeseen expenses. As the Commission is aware, even though Shelby Energy's rates are currently set to achieve a 2.0 TIER, Shelby Energy does not achieve a 2.0 TIER. In fact, Shelby Energy has not achieved a 2.0 TIER in many years and in 2023 the TIER was 1.07.¹⁶ Decreasing the TIER will put Shelby Energy in jeopardy of not meeting its debt covenant requirements. If the

¹⁶ Shelby Energy's Response to the Attorney General's First Request for Information, Item 16.

Commission were to deviate from the 2.00 TIER, it would abandon years of precedent that cooperatives rely upon.¹⁷ Shelby Energy's use of 2.0 TIER calculation is reasonable in this case, is supported by precedent, and should be accepted by the Commission.

CONCLUSION

Shelby Energy's proposal 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. Shelby Energy 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 2nd day of May 2025.

Respectfully submitted,

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¹⁷ 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.

CERTIFICATE OF SERVICE

This is to certify that the electronic filing was transmitted to the Commission on May 2, 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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