

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF)	
SOUTH KENTUCKY RURAL ELECTRIC)	CASE NO.
COOPERATIVE CORPORATION FOR)	2024-00402
A GENERAL ADJUSTMENT OF RATES)	
AND OTHER GENERAL RELIEF)	

**SOUTH KENTUCKY RURAL ELECTRIC
COOPERATIVE’S REPLY BRIEF**

Comes now, South Kentucky Rural Electric Cooperative (“South Kentucky”), by counsel, pursuant to the Kentucky Public Service Commission’s (“Commission”) July 21, 2025 Order, and for its reply brief in support of its position hereby states as follows:

INTRODUCTION

South Kentucky and the Attorney General, by and through the Office of Rate Intervention (“Attorney General”) filed simultaneous briefs in this matter on August 8, 2025 setting forth their positions in this matter. As stated in South Kentucky’s brief, consistent with KRS 278.030(1), South Kentucky seeks approval to increase its annual revenues by \$10,766,999.¹ This will allow South Kentucky to achieve an Operating Times Interest Earned Ratio (“OTIER”) of 1.85. South Kentucky based its proposed rates on a twelve-month historic test period ending May 31, 2024. Included in the request is an increase of the monthly residential customer charge from \$17.50 to \$30.75. These rates are based on the results of a comprehensive COSS. The rates are appropriately

¹ Application at Paragraph 4 (filed February 3, 2025).

adjusted for known and measurable changes consistent with Commission regulations and precedent.

Through extensive discovery, each of South Kentucky'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. South Kentucky 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.

ARGUMENT IN RESPONSE

At the outset, the Attorney General fails to acknowledge at any point in this case that distribution cooperatives are not for profit.² South Kentucky does not have any reason to request a higher revenue requirement or utilize one method for determining the revenue requirement over another. South Kentucky is owned by the members it serves. South Kentucky does not have any investors that require a return on their investment into the corporation and therefore South Kentucky has no incentives to request higher rates than are needed to run the cooperative. The revenue requirement requested by South Kentucky is simply the amount needed to meet its OTIER minimums in its debt covenants and to continue to provide safe and reliable electric service to its members. The main difference in this proceeding from other distribution cooperatives, is that South Kentucky has not met the United States Department of Agriculture ("USDA") Rural Utility

² See OAG Post-Hearing Brief (filed August 8, 2025).

Service (“RUS”) minimums for OTIER in 2023 or 2024.³ The Attorney General completely failed to acknowledge this fact.⁴

If South Kentucky does not rectify this situation and drastically improve its OTIER, it will default on its RUS loans. This is an unimaginable consequence for a distribution cooperative. The Commission should allow the revised revenue request of \$10,425,364. This amount is necessary to allow South Kentucky the potential, but not guaranteed, OTIER of 1.85. This will result in fair, just and reasonable rates and ensure that South Kentucky will not continue to fall short of its debt covenants.

As if not meeting its OTIER minimums the past two years was not enough of a reason for South Kentucky to be authorized to earn the revenue requirement contained in its rebuttal testimony, South Kentucky also suffered significant damage from a devastating tornado on May 17, 2025. South Kentucky must have the additional margins to repair the damage to its system that will not be covered by insurance or the Federal Emergency Management Agency (“FEMA”). While those costs are not included in the proposed revenue increase, because they were not incurred during the test period, the Commission should not ignore the reality of the adverse impacts that the tornado is having and will continue to have on South Kentucky’s financial position when it considers the requested rate revisions. This is another issue the Attorney General completely ignored.⁵

South Kentucky is the only party in this proceeding that performed a comprehensive COSS. This unrefuted COSS supported a residential customer charge of \$30.91.⁶ Based on the results of

³ South Kentucky’s Post-Hearing Brief (Filed August 8, 2025).

⁴ See OAG Final Brief.

⁵ See OAG Final Brief.

⁶ Application, Exhibit 10, Direct Testimony of John Wolfram at 21.

the COSS, South Kentucky proposed to increase the current customer charge of \$17.50 to \$30.75 and the energy charge from \$0.09816 to \$0.09869.⁷

South Kentucky presented evidence regarding why South Kentucky decided to distribute the required rate increase more heavily in the customer charge, as opposed to the energy charge. This is consistent with the COSS and it creates a lower negative impact to economically vulnerable members. The Attorney General's brief completely ignored the quantitative analysis performed by South Kentucky regarding the impact to low income customers and also ignored the hearing testimony of its own witness, that proves a higher customer charge, instead of a higher energy charge, provides less fluctuation in costs from month to month and in fact results in a lower total annual cost for that customer segment.⁸ Both South Kentucky and the Attorney General's witnesses at the hearing testified that customers would still have the incentive to conserve energy to lower their monthly bills even if the increase is placed more on the fixed charge.⁹ Allowing South Kentucky to recover more of its fixed costs through the customer charge will decrease some of the uncertainty and unpredictability that a distribution cooperative faces in its revenue stream. This will also allow South Kentucky to start earning enough revenue to meet its OTIER minimums.

As stated in the initial brief, South Kentucky noted the Attorney General's continued argument against a movement toward cost-based rates in all distribution cooperative rate proceedings.¹⁰ As expected in the Attorney General's brief, there is no evidence South Kentucky's

⁷ Application, Exhibit 10, Direct Testimony of John Wolfram at 24.

⁸ South Kentucky Response to AG's First Request for Information, Item 16 (filed April 11, 2025), OAG Final Brief at 6-8, and Hearing Video Testimony of the July 17, 2025 Hearing ("HVT") at 12:21:43 – 12:24:20.

⁹ HVT 11:41:00-11:45:00; HVT 12:21:43-12:24:20

¹⁰ South Kentucky's Post-Hearing Brief at 9.

COSS is incorrect.¹¹ The undisputed evidence in this proceeding is that the fixed costs to serve South Kentucky's residential members is \$30.91 per month. Aside from its argument against cost-based rates, the Attorney General additionally argues in this proceeding that because South Kentucky had a rate increase in 2022 it should somehow not be awarded the requested customer charge in this proceeding.¹² However, the Attorney General fails to explain how this is different from any other utility that files rate proceedings on a consistent three-year cycle.

The Attorney General argued South Kentucky's request for an adjustment of rates on a 1.85 OTIER is incorrect.¹³ However, the Attorney General has not provided any relevant case law, regulations, or statutes stating it is incorrect to use OTIER instead of TIER for a rate adjustment.¹⁴ As explained in written testimony, the formal hearing, and its brief, South Kentucky has experienced such a decrease in margins that it did not meet the minimums for TIER or OTIER in 2023 or 2024.¹⁵ South Kentucky's margins deteriorated such that it had to notify RUS that it had not met its OTIER minimum of 1.10 for the average of the best two (2) out of three (3) years.¹⁶ RUS has required South Kentucky to explain what is being done to rectify this situation and has not given a firm response on what will happen if South Kentucky continues to fall short of its OTIER minimum.¹⁷ Despite the fact that OTIER is the metric that South Kentucky must remedy

¹¹ OAG Final Brief at 6-8.

¹² OAG Final Brief at 7.

¹³ OAG Final Brief at 13.

¹⁴ OAG Final Brief at 13-16.

¹⁵ HVT at 9:38:20, Response to AG's First Request, Item 19, and South Kentucky's Post-Hearing Brief.

¹⁶ HVT at 9:30:20, Response to Staff's Second Request, Item 9, and South Kentucky's Post-Hearing Brief.

¹⁷ HVT at 9:38:40.

in order to satisfy RUS, the Attorney General claims there is no basis for utilizing OTIER as the requested method for determining the revenue requirement.¹⁸

The Attorney General argued that South Kentucky does not even need a 2.0 TIER.¹⁹ The Attorney General argued that a 1.85 TIER is equivalent to a 1.40 OTIER.²⁰ What this argument fails to acknowledge, is that South Kentucky's rates are currently set so that it may attempt to achieve a 2.0 TIER; however, South Kentucky has failed to achieve anything close to a 2.0 TIER since its last rate proceeding. If the Commission agreed with the Attorney General in this proceeding and only awarded South Kentucky a 1.85 TIER instead of a 1.85 OTIER, South Kentucky would be at a huge risk to default on its RUS loans.

CONCLUSION

South Kentucky'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. South Kentucky respectfully requests the Commission enter a final order adopting its request in full, including the recovery of its rate case expense amortized over a three-year period.

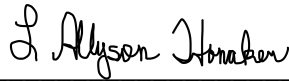
This 15th day of August 2025.

¹⁸ OAG Final Brief at 13-16.

¹⁹ OAG Final Brief at 16-18.

²⁰ OAF Final Brief at 17.

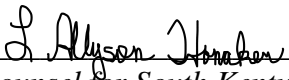
Respectfully submitted,



L. Allyson Honaker
Heather S. Temple
Meredith Cave
HONAKER LAW OFFICE, PLLC
1795 Alysheba Way, Suite 1203
Lexington, KY 40509
(859) 368-8803
allyson@hloky.com
heather@hloky.com
meredith@hloky.com
*Counsel for South Kentucky Rural Electric
Cooperative Corporation*

CERTIFICATE OF SERVICE

This is to certify that the electronic filing was transmitted to the Commission on August 15, 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.



*Counsel for South Kentucky Rural
Electric Cooperative Corporation*