

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

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

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**REBUTTAL TESTIMONY OF**  
**JOHN WOLFRAM**  
**PRINCIPAL, CATALYST CONSULTING LLC**  
**ON BEHALF OF SOUTH KENTUCKY RURAL ELECTRIC**  
**COOPERATIVE CORPORATION**

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**Filed: June 13, 2025**

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**VERIFICATION OF JOHN WOLFRAM**

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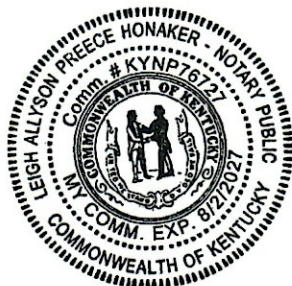
COMMONWEALTH OF KENTUCKY    )  
  )  
COUNTY OF JEFFERSON         )

John Wolfram, Principal of Catalyst Consulting LLC, being duly sworn, states that he has supervised the preparation of his Rebuttal Testimony in the above-referenced case and that the matters and things set forth therein are true and accurate to the best of his knowledge, information and belief, formed after reasonable inquiry.

  
\_\_\_\_\_  
John Wolfram

The foregoing Verification was signed, acknowledged and sworn to before me this 13th day of June, 2025, by John Wolfram.

  
\_\_\_\_\_  
Commission expiration: 6/2/27  
KYNP76727



**REBUTTAL TESTIMONY  
OF  
JOHN WOLFRAM**

**I. INTRODUCTION**

1   **Q.   PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION.**

2   A.   My name is John Wolfram. I am the Principal of Catalyst Consulting LLC. My  
3       business address is 3308 Haddon Road, Louisville, Kentucky, 40241.

4   **Q.   ON WHOSE BEHALF ARE YOU TESTIFYING?**

5   A.   I am testifying on behalf of South Kentucky Rural Electric Cooperative Corporation  
6       ("South Kentucky").

7   **Q.   ARE YOU THE SAME INDIVIDUAL THAT PROVIDED DIRECT  
8       TESTIMONY IN THIS CASE?**

9   A.   Yes.

10  **Q.   WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

11  A.   The purpose of my testimony is to respond to the recommendations of Witness Mr.  
12       Randy A. Futral on behalf of the Office of the Attorney General of the  
13       Commonwealth of Kentucky ("AG"), as provided in Mr. Futral's direct testimony  
14       ("Futral Direct").

15  **Q.   DID THE AG MAKE RECOMMENDATIONS REGARDING SOUTH  
16       KENTUCKY 'S OVERALL REVENUE REQUIREMENT?**

17  A.   Yes. The AG made recommendations regarding several different items affecting  
18       the proposed revenue requirement in this case. I will respond to each item and  
19       recommendation in turn.

20  **Q.   WHAT DID THE AG RECOMMEND REGARDING OTIER VS. TIER?**

1 A. The AG recommended that the Commission establish rates based on TIER instead  
2 of OTIER.

3 **Q. HOW DO YOU RESPOND?**

4 A. I disagree with this recommendation. South Kentucky is required to meet all of its  
5 debt covenants.<sup>1</sup> For South Kentucky, the debt covenant most often below the  
6 required minimum and below the required minimum by the largest degree is the  
7 OTIER ratio.<sup>2</sup> In other words, the main reason South Kentucky used OTIER for  
8 establishing the revenue requirement is because OTIER is the metric not met by  
9 South Kentucky most often and by the greatest extent. Using any other metric  
10 would be less than optimal for curing South Kentucky's deficiency with respect to  
11 its collective debt covenants.

12 **Q. DID THE AG CLAIM THAT SEVERAL ITEMS RELATED TO TIER**  
13 **SHOULD BE CONSIDERED FOR DETERMINING THE REVENUE**  
14 **REQUIREMENT?**

15 A. Yes. The AG testified at length on why several items should be included in the  
16 determination of the revenue requirement. These include Interest Income, Other  
17 Income and Expense, and Other Capital Credits Income.

18 **Q. HOW DO YOU RESPOND?**

19 A. The arguments for including these items basically equate to the argument for  
20 relying on TIER instead of OTIER. By definition OTIER does not consider Interest  
21 Income, Other Income and Expense, and Other Capital Credits Income, which are

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<sup>1</sup> See South Kentucky's response to Commission Staff's Second Request for Information, Item 12.

<sup>2</sup> See South Kentucky's response to the Attorney General's First Request for Information, Item 15.

1 similar to G&T Capital Credits in that they can be volatile and are largely unrelated  
2 to how the cooperative conducts its operations to provide electric service to its  
3 members. For these reasons, and for the reasons stated in the Rebuttal Testimony  
4 of Ms. Carrie Bessinger, it is appropriate to rely upon OTIER as the metric for  
5 ratemaking in this instance.

6 **Q. GIVEN THAT THE AG RECOMMENDS USING TIER INSTEAD OF**  
7 **OTIER TO ESTABLISH TARGET MARGINS, WHAT DID THE AG**  
8 **RECOMMEND REGARDING THE APPROPRIATE LEVEL OF TIER?**

9 A. The AG recommended that the Commission establish rates based on a TIER of  
10 1.85.

11 **Q. HOW DO YOU RESPOND?**

12 A. I disagree with this recommendation. First, the use of a 2.00 TIER has proven to  
13 be insufficient for establishing margins for South Kentucky in its present  
14 circumstances. The Commission used a TIER of 2.00 for ratemaking for South  
15 Kentucky less than three years ago, and in this case the test year unadjusted TIER  
16 was 0.99 – less than half of the target amount upon which rates were last  
17 established. This is an adverse trend in recent years which reflects the fact that  
18 South Kentucky is in a rising cost, declining usage environment. One could argue  
19 that a TIER of 2.00 seems insufficient since the achieved TIER is so short of the  
20 awarded TIER. Neither South Kentucky, nor any other distribution cooperative,  
21 has expended the additional resources for hiring an outside expert to quantify the  
22 appropriate TIER metric for ratemaking (as investor-owned utilities ordinarily due  
23 in rate cases to determine the proposed Return on Equity), instead relying on

1 qualitative information, Commission precedent, and/or the streamlined regulation  
2 to support either a 1.85 OTIER or a 2.00 TIER. Either way, the fact that South  
3 Kentucky has had to seek rate increases twice in the last three years indicates that  
4 revenues are simply insufficient and basing new rates on a TIER of less than 2.00  
5 will exacerbate that problem, not mitigate it.

6 Second, a TIER of 1.85 is not much higher than the 1.25 minimum  
7 established in South Kentucky's loan covenants. The Commission has found in  
8 other cases that it is reasonable to set the target metric higher than the minimums  
9 required by cooperative lenders, in part because of the importance of unforeseen  
10 expenses. Cooperative margins are not solely related to paying off debt; they also  
11 allow the cooperative to manage volatility in the wholesale purchased power bills  
12 and unforeseen expenses like storm restoration and/or other O&M costs subject to  
13 rapid inflationary pressures. This is why the Commission should not set TIER close  
14 to the minimum levels required by the lenders; doing so would require the  
15 cooperative to operate even more on the razor's edge than they already do today.

16 Third, in Case No. 2021-00358, the Commission explicitly rejected the  
17 AG's recommendation to set Jackson Purchase's TIER at 1.50. The Commission  
18 cited the adverse effect on the cooperative's cash working capital, which could  
19 "impair Jackson Purchase's ability to have sufficient cash flow to respond to  
20 unforeseen expenses."<sup>3</sup> The basis for the Commission decision in that case applies  
21 in the instant case as well; setting TIER at 1.85 could impair cash working capital

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<sup>3</sup> *Id.*, p. 18.

1 and cash flow for unforeseen expenses, particularly given the current inflationary  
2 cost pressures.

3 Finally, the AG's recommendation of 1.85 is arbitrary. It is not supported  
4 by any analysis, comparative review of peers, formulaic determination, or case  
5 precedent. Even if one were to determine that the Commission's historic  
6 consideration of 1.85 OTIER was inappropriate here – a determination for which  
7 South Kentucky finds no persuasive evidence in this docket – then there is still no  
8 reason to conclude that a TIER of 1.85 is the appropriate metric value for  
9 ratemaking purposes. There is no evidence in the record or in Commission  
10 precedent to support the reasonableness of applying a 1.85 TIER for South  
11 Kentucky in this case.

12 For these reasons, it is not reasonable to base the revenue deficiency on the  
13 AG's proposed TIER of 1.85, and the Commission should not accept this  
14 recommendation.

15 **Q. WHAT DID THE AG RECOMMEND REGARDING FEMA EXPENSES ?**

16 A. The AG notes that South Kentucky acknowledged an error in the proposed pro  
17 forma adjustment for these expenses that increased the revenue requirement by  
18 \$234,788.

19 **Q. HOW DO YOU RESPOND?**

20 A. Mr. Futral is correct. South Kentucky acknowledged this in its response to the  
21 Attorney General's First Request for Information, Item 50. I will address the  
22 numerical effects of this revision later in my testimony.

1    **Q.     WHAT DID THE AG RECOMMEND REGARDING RETIREMENT**  
2           **EXPENSES?**

3    A.     The AG recommends as a starting point that the Commission accept a revised  
4           Reference Schedule 1.09 which had the effect of increasing the projected total  
5           normalized costs to \$3,186,724 and the proforma expense increase up to \$367,924,  
6           an increase of \$7,091 from the originally filed amount. The AG further  
7           recommends that the Commission reduce the retirement expense applicable to 19  
8           average new employees deemed not to be eligible for contributions due to the RSC  
9           one year waiting requirement. The total effect is a reduction of \$266,412 in  
10          retirement plan expense and in the base revenue requirement and requested base  
11          rate increase.

12   **Q.     HOW DO YOU RESPOND?**

13   A.     South Kentucky agrees with the first recommendation by Mr. Futral to accept the  
14          revised schedule as filed by South Kentucky in discovery. South Kentucky does  
15          not agree with the rest of the AG's recommendation; see the Rebuttal Testimony of  
16          Ms. Carrie Bessinger.

17   **Q.     WHAT DID THE AG RECOMMEND REGARDING AMORTIZATION**  
18          **EXPENSE FOR DEFERRED COSTS?**

19   A.     The AG recommends that the Commission reset the amortization period to three  
20          years for the unamortized deferred cost of prior rate case expense and mechanical  
21          meter amortizations. amortization expense will be reduced by \$32,712 for the prior  
22          rate case deferred costs and by \$57,209 for the old meter retirement loss deferred



1 costs. The total effect is a reduction of \$89,921 in amortization expense and in the  
2 base revenue requirement and requested base rate increase.

3 **Q. HOW DO YOU RESPOND?**

4 A. Mr. Futral's recommendation is reasonable, and South Kentucky agrees to adopt  
5 this revision. I will address the numerical effects of this revision later in my  
6 testimony.

7 **Q. WHAT DID THE AG RECOMMEND REGARDING SCADA EXPENSES?**

8 A. The AG recommends recommend that the Commission reduce the Station  
9 Expense–SCADA expenses to remove the expense items that are not recurring in  
10 nature. The effect is a reduction of \$19,880 in Station Expense–SCADA expenses  
11 and in the base revenue requirement and requested base rate increase.

12 **Q. HOW DO YOU RESPOND?**

13 A. Mr. Futral is correct. South Kentucky acknowledged this in its response to the  
14 Attorney General's First Request for Information, Item 80. I will address the  
15 numerical effects of this revision later in my testimony.

16 **Q. WHAT DID THE AG RECOMMEND REGARDING**  
17 **UNCOLLECTIBLES?**

18 A. The AG recommends that the Commission reduce the Uncollectible Accounts  
19 Expense to a level based on the Company's identification of a lower level of  
20 expense, the expense from September 2023 through December 2024, reducing the  
21 test year amount of expense by \$32,679.

22 **Q. HOW DO YOU RESPOND?**

1 A. Mr. Futral's recommendation is reasonable, and South Kentucky agrees to adopt  
2 this revision. I will address the numerical effects of this revision later in my  
3 testimony.

4 **Q. WHAT DID THE AG RECOMMEND REGARDING DEPRECIATION**  
5 **EXPENSE?**

6 A. The AG recommends that the Commission revise the proforma increase amount of  
7 depreciation expense to incorporate the revisions provided by the Company to  
8 better reflect the correct depreciable plant. The effect is a reduction of \$19,512 in  
9 depreciation expense and in the base revenue requirement and requested base rate  
10 increase.

11 **Q. HOW DO YOU RESPOND?**

12 A. Mr. Futral is correct. South Kentucky acknowledged this in its response to the  
13 Attorney General's Second Request for Information, Item 12. I will address the  
14 numerical effects of this revision later in my testimony.

15 **Q. WHAT DID THE AG RECOMMEND REGARDING LONG TERM DEBT**  
16 **EXPENSE?**

17 A. The AG recommends that the Commission revise the long-term debt interest  
18 expense in Reference Schedule 1.14.

19 **Q. HOW DO YOU RESPOND?**

20 A. Mr. Futral is correct. South Kentucky acknowledged a revision in its response to  
21 the Attorney General's First Request for Information, Item 51. I will address the  
22 numerical effects of this revision later in my testimony.

1   **Q.     WHAT DID THE ATTORNEY GENERAL RECOMMEND REGARDING**  
2       **THE YEAR-END CUSTOMER ADJUSTMENT?**

3   A.    The AG recommends that should the Commission decide to adjust the Company's  
4       annualization of year end customers on its revenues and expenses in the application,  
5       that it do so based on the true apples-to-apples comparison Mr. Futral performed in  
6       lieu of the proposed revision offered by South Kentucky in response to Commission  
7       Staff's Second Request for Information, Item 13.

8   **Q.     HOW DO YOU RESPOND?**

9   A.    Mr. Futral's recommendation is reasonable. As Mr. Futral acknowledges, South  
10       Kentucky originally did not request that the Commission update the year-end  
11       customer adjustment, in recognition of the magnitude of the resulting increase to  
12       the revenue deficiency. Given what else has transpired since the filing of the case,  
13       South Kentucky recommends that the Commission decide to adjust the  
14       annualization of year end customers on its revenues and expenses in the application,  
15       based on the rate switching described by South Kentucky<sup>4</sup> and considered by Mr.  
16       Futral in his analysis. The analysis reasonably factors the rate switching between  
17       classes into the more traditional adjustment for rate class growth captured in a year-  
18       end customer adjustment. I will address the numerical effects of this revision later  
19       in my testimony.

20   **Q.     DID SOUTH KENTUCKY PROPOSE A REVISION TO WAGES AND TO**  
21       **HEALTH INSURANCE PREMIUM EXPENSES?**

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<sup>4</sup> See South Kentucky's response to the Attorney General's First Request for Information, Item 42.

1 A. Yes. These were minor clerical revisions to Reference Schedule 1.10 that increase  
2 wage expense by \$2,242 per year and to Reference Schedule 1.16 that increase  
3 health insurance premium costs by \$9,255 per year. The Commission should accept  
4 these revisions.

5 **Q. BASED ON THE RESPONSES DESCRIBED HEREIN, AND THOSE**  
6 **NOTED IN DISCOVERY, WHAT IS THE REVISED REVENUE**  
7 **DEFICIENCY FOR SOUTH KENTUCKY IN THIS CASE?**

8 A. The revenue deficiency changes from the originally filed \$10,766,478 amount to  
9 \$10,428,478, or a reduction of \$338,521.

10 **Q. DO THESE REVISIONS AFFECT THE COSS?**

11 A. Yes, but the revised pro forma adjustments have a negligible effect on the relative  
12 results of the COSS. The revisions change the cost-based rates by small increments  
13 and do not change the relative assessment of overall rates of return for the rate  
14 classes; the residential rates still have negative rates of return on rate base and are  
15 still being significantly subsidized by the non-residential rate classes.

16 **Q. HOW DO THE UPDATES TO THE REVENUE DEFICIENCY AND COSS**  
17 **TRANSLATE INTO REVISED RATES?**

18 A. Because the fundamental results of the COSS do not change, the allocation of the  
19 proposed increase does not change; the proposed per-unit charges change slightly  
20 in order to yield the target revenue increase. The proposed residential customer  
21 charge of \$30.75 does not change. The proposed energy charge for residential  
22 changes from the as-originally-filed \$0.09869 per kWh to \$0.09825 per kWh.

1   **Q.    HOW DO YOU SUMMARIZE THE REVISED REQUEST OF SOUTH**  
2       **KENTUCKY AT THIS JUNCTURE OF THE CASE?**

3    A.    Based on the latest information, South Kentucky is requesting an overall increase  
4           of \$10,425,364 (This is \$3,114 short of the \$10,428,478 target revenue deficiency  
5           due to rate rounding.) South Kentucky is proposing to increase the residential  
6           customer charge from \$17.50 per month to \$30.75 per month (which is still short  
7           of the cost based \$31.08 per month) and the energy charge from \$0.09816 to  
8           \$0.09825 per kWh, which will increase the average residential customer's monthly  
9           bill by \$13.34 or 10.5%. This request is lower than that originally filed by South  
10          Kentucky but is required in order for the cooperative to meet the financial target of  
11          1.85 OTIER for the period of time when the proposed rates will be put in effect.

12   **Q.    DID YOU UPDATE THE FILED EXHIBITS TO REFLECT SOUTH**  
13       **KENTUCKY'S MOST RECENT POSITION, BASED ON THE**  
14       **RESPONSES DESCRIBED HEREIN?**

15   A.    Yes. Updated files for Exhibit JW-2 (revenue requirement with pro forma  
16           adjustments), Exhibits JW-3 through JW-8 (COSS updated for pro forma  
17           adjustment revisions) and Exhibit JW-9 (present and proposed rates for revised  
18           revenue deficiency) are included in the three spreadsheet files provided  
19           electronically with this rebuttal testimony. These are the same three files uploaded  
20           with the original application, but they include revisions reflecting all of the items I  
21           described herein. Revised fields are noted in colored highlight. The Commission  
22           should rely on the updated exhibits in rendering its decision on South Kentucky's  
23           application in this case.

1    **Q.     DOES THIS CONCLUDE YOUR TESTIMONY?**

2    A.     Yes, it does.