

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

THE ATTORNEY GENERAL’S POST-HEARING BRIEF

The Intervenor, the Attorney General of the Commonwealth of Kentucky, through his Office of Rate Intervention (“Attorney General”) submits the following Post-Hearing Brief to the Kentucky Public Service Commission (“Commission”) in the above-styled matter.

STATEMENT OF THE CASE

South Kentucky Rural Electric Cooperative Corporation (“South Kentucky” or the “Company”) is a not-for-profit, member-owned rural electric distribution cooperative organized under KRS Chapter 279.¹ The Company distributes retail electric power to approximately 52,000 member customers in the Kentucky counties of Adair, Casey, Clinton, Cumberland, Laurel, Lincoln, McCreary, Pulaski, Rockcastle, Russell, and Wayne.² Additionally, it provides electricity to approximately 200 customer in Tennessee counties of Picket and Scott.³ South Kentucky owns approximately 7,100 circuit miles of distribution line its service territory, and purchases its power requirements from East Kentucky Power Cooperative, Inc, pursuant to a Wholesale Power

¹ Application, paragraph 1.

² *Id.*

³ Testimony of Kevin Newton (“Newton Testimony”) at 3.

Contract dated October 1, 1964, and subsequent amendments.⁴ South Kentucky is a utility subject to the rates and service jurisdiction of the Commission

On January 3, 2025, South Kentucky filed its notice of intent to file an application for a general adjustment of rates. The Commission granted intervention to the Attorney General by order dated January 30, 2025. The Company subsequently filed its application on February 3, 2025, utilizing a historic test year ending May 31, 2024, that included adjustments for alleged known and measurable changes.⁵ The Commission issued an order on February 6, 2025, which deemed the Company's application filed as of February 3, 2025. On February 19, 2025, the Commission issued an Order setting out a procedural schedule for the parties to follow in the pending case. The Company filed a motion to amend the procedural schedule on March 27, 2025. Subsequently, the Commission issued an Order amending the procedural schedule on April 8, 2025.

In the application, South Kentucky originally requested an increase in revenues totaling \$10,766,999, or 7.16% to achieve an Operating Times Interest Earned Ratio ("OTIER") of 1.85.⁶ The only customer class that the Company requests a rate increase on is the "Residential, Farm and Non-Farm Service."⁷ For this class, the Company requests an increase to the monthly customer charge from \$17.50 to \$30.75, or 75.7%. Initially, South Kentucky also sought an increase of the volumetric kWh charge from .09816 to .09869.⁸ In the rebuttal testimony, the Company lowered its requested revenue increase to \$10,425,364.⁹ Likewise, the requested volumetric increase was also reduced to \$.09825 per kWh in the Company's rebuttal testimony.¹⁰

⁴ Application, paragraph 1.

⁵ *Id.* at paragraph 8.

⁶ *Id.* at paragraph 4.

⁷ Application, Exhibit 4

⁸ Application, paragraph 4.

⁹ Rebuttal Testimony of John Wolfram ("Wolfram Rebuttal Testimony") at 12.

¹⁰ *Id.*

The Attorney General and Commission Staff each propounded several rounds of discovery to South Kentucky, to which the Company filed responses into the record. On May 19, 2025, the Attorney General filed direct testimony into the record of his expert witness, Mr. Randy A. Futral (“Mr. Futral”), as well as filed responses to discovery requests on June 6, 2025. The Company filed rebuttal testimony on June 13, 2025. An evidentiary hearing was conducted on July 17, 2025. South Kentucky then filed responses to post-hearing data requests on July 29, 2025. The pending case will stand submitted for a decision on the record on August 16, 2025.

ARGUMENT

Pursuant to KRS 278.190(3), South Kentucky bears the burden of proof to demonstrate “that an increase of rate or charge is just and reasonable.”¹¹ The Company has failed to meet its burden of proof, demonstrating that the requested revenue increase will result in fair, just, and reasonable rates.¹² The Attorney General recommends a downward adjustment to the requested revenue increase, because approving South Kentucky’s application as is will result in unfair, unjust, and unreasonable rates for residential customers due to the following issues.

I. South Kentucky agreed to specific recommendations proposed by the Attorney General to revise the rate increase and revenue requirement.

In the rebuttal testimony of John Wolfram, the Company agreed, or partially agreed, to specific recommendations and adjustments proposed by the Attorney General, as discussed below. According to the Company, the acceptance of these recommended adjustments results in a net

¹¹ *Kentucky-American Water Company v. Commonwealth ex rel. Cowan*, 847 S.W.2d 737,741 (Ky. 1993).

¹² See KRS 278.190. “At any hearing involving the rate or charge sought to be increased, the burden of proof to show that the increased rate or charge is just and reasonable shall be upon the utility....”; See KRS 278.030(1). “Every utility may demand, collect and receive fair, just and reasonable rates for the services rendered or to be rendered by it to any person.”

reduction of the Company's requested rate increase and proposed revenue requirement by \$341,635.¹³

South Kentucky agrees or partially agrees to the following adjustments proposed by the Attorney General:

1. Agreed with the Attorney General's recommendation to reduce the amount of net Federal Emergency Management Agency ("FEMA") reimbursement expenses. The Attorney General's expert witness, Mr. Futral, observed an error pertaining to the rerecorded FEMA storm expenses. With this adjustment, the revenue requirement was reduced by \$234,788.¹⁴
2. Agreed to the Attorney General's recommendation to reduce amortization expenses. The Attorney General's expert witness recommended that the amortization period be reduced to three years for mechanical meter amortizations and unamortized deferred costs for prior rate case expenses. This resulted in a total reduction of \$89,921 in the base revenue requirement.¹⁵
3. Agreed to the Attorney General's recommendation to reduce non-recurring Supervisory Control and Data Acquisition ("SCADA") expenses. Over the course of discovery, it was observed that a portion of the SCADA listed as part of the revenue requirement in South Kentucky's application was non-recurring in nature, and outside of the test year. South Kentucky agreed with this notion, which in turn resulted in a \$19,880 reduction in the revenue requirement.¹⁶
4. Agreed to the Attorney General's recommendation regarding a reduction in Uncollectible Accounts expenses. During the course of discovery, South Kentucky advised that the

¹³ Wolfram Rebuttal Testimony at 11-12.

¹⁴ *Id* at 6.

¹⁵ *Id* at 6-7.

¹⁶ *Id* at 8.

Uncollectable Expense was much higher in 2023 and reduced to a more typical level in 2024.¹⁷ As a result, the Attorney General recommended reducing the amount for this expense by \$32,679, which South Kentucky subsequently found reasonable.¹⁸

5. Agreed to the Attorney General's recommended revision of the Long-Term debt expenses by removing \$81,121 from expenses and \$150,073 from the revenue requirement based on a 1.85 OTIER.¹⁹ The revenue requirement reduction would be \$162,242 based on a TIER of 2.0.
6. Agreed to the Attorney General's recommended adjustment of depreciation expenses. Based upon the updated Reference Schedule 1.05 along with the Company's responses to the Attorney General's First Set of Data Requests, South Kentucky agreed to a reduction of \$19,512 in the revenue requirement.²⁰
7. Agreed to a revision of Reference Schedule 1.16 (Health and Dental Insurance), reducing health insurance premium costs by \$9,255 per year.²¹
8. Finally, South Kentucky agreed to Mr. Futral's recommended methodology of using the true apples-to-apples comparison methodology for adjustment of year end customers.²² When the application was filed, there was an error pertaining to the customer counts at the end of the test year, which in return impacted South Kentucky's requested revenue requirement.²³ Using the apples-to-apples comparison results in a net margin increase of \$291,807 for the Company's Reference Schedule 1.04 adjustment compared to the original as-filed net margin increase amount of \$498,438, which results in an increase in the

¹⁷ South Kentucky's response to AG 1-83.

¹⁸ Wolfram Rebuttal at 8.

¹⁹ *Id* at 9.

²⁰ *Id*.

²¹ Wolfram Rebuttal at 11.

²² *Id* at 10.

²³ Futral Testimony at 47.

revenue requirement amount of \$206,631. This amount is much lower than the increase in the revenue requirement computations provided in South Kentucky's response to Staff 2-13. Mr. Futral's methodology results in a more reasonable correction.²⁴ The Attorney General does not believe that South Kentucky is entitled to a rate increase for any corrections to the year-end customer count because the Company did not request it in the application, amend the application to request the adjustment, or reissue notice to the customers of the potential additional rate increase. However, if the Commission were inclined to make the adjustment, then Mr., Futral's recommendation should be followed, as it is the most logical computation.

II. South Kentucky's proposal to increase the residential monthly customer charge by 75.7% and increase the residential energy charge is unreasonable.

As aforementioned, South Kentucky is proposing to increase the residential monthly customer charge from \$17.50 to \$30.75 and increase the residential energy charge to 0.9825 per kWh. If the Commission were to grant this increase, South Kentucky will have the highest residential monthly customer charge out of all rural electric cooperatives that are member-owners of East Kentucky Power Cooperative, Inc.²⁵ A significant increase of this magnitude is contradictory to the principles of gradualism.

If the Commission awards South Kentucky a \$30.75 monthly residential customer charge, then it will diminish the customers' ability to control and reduce their monthly utility bills. A higher monthly customer charge may disincentivize energy conservation. Furthermore, this will have a negative impact on customers with a fixed income, as well as those living in poverty, and already

²⁴ Futral at 53. See also Wolfram Rebuttal electronic exhibit workpaper South-Rev-Req-2024-Rebuttal at tab 1.04 CUST.

²⁵ South Kentucky Rural Electric Cooperative Corporation's Verified Response to the Attorney General's First Request for Information ("Attorney General's First Request"), Items 16(g)

struggling to pay bills. One such customer reported in a public comment filed into the pending case that she struggles paying for utilities, groceries, and medication. She advised that she would be unable to afford the increase that South Kentucky has proposed.²⁶

An important factor to consider is the high poverty levels found in South Kentucky's service area. Per the most updated data from the United States Census Bureau, the average poverty rate in South Kentucky's service territory is 22.98%. The highest poverty is found in McCreary County, which is alarmingly 35.9%.²⁷ The Company has acknowledged McCreary County as one of the poorest counties in the United States.²⁸ Pulaski County has the lowest poverty, which is 17%, and still a concerning percentage. South Kentucky has acknowledged that it is aware of the high poverty rates in its service territory and has further admitted that the region is troubled by unemployment, limited infrastructure, and limited access to both education and healthcare²⁹.

It should also be noted that the monthly customer charge for the Company's residential customers was increased just under four years ago from \$13.29 to \$17.50.³⁰ If South Kentucky's request is granted in the pending case, then the residential customers will experience an overall increase of 131.38% to their monthly customer charge within an approximately four-year period.

Due to the high levels of poverty, difficult economic conditions, and the fact that the Company's customers have faced two rate increases in a short period of time, the Attorney General appeals to the Commission to employ gradualism when awarding any increase in South

²⁶ Clouse Public Comment. February 25, 2025.

²⁷ <https://www.census.gov/quickfacts/fact/table/cumberlandcountykentucky,clintoncountykentucky,caseycountykentucky,adaircountykentucky,mccrearycountykentucky,US/IPE120223>;
<https://www.census.gov/quickfacts/fact/table/waynecountykentucky,russellcountykentucky,rockcastlecountykentucky,pulaskicountykentucky,lincolncountykentucky,laurelcountykentucky/IPE120223>

²⁸ South Kentucky's response AG's 1-3(a).

²⁹ *Id.*

³⁰ Case No. 2021-00407. *In the Matter of Electronic Application of South Kentucky Rural Electric Cooperative Corporation for a General Adjustment of Rates, Approval Of Depreciation Study, and Other General Relief Order* at Appendix A (Ky. PSC June 30, 2022)

Kentucky's residential monthly customer charge and the energy charge. The Commission has always relied upon the principle of gradualism in ratemaking, which mitigates the financial impact of rate increases on customers.³¹ South Kentucky's requested rate increase, the second in approximately four years, is in opposition of this important ratemaking principle.

If the Commission were to approve the Company's requested increase to the residential monthly customer charge, the Attorney General recommends that the increase be implemented in a two-phased approach. For example, during the first phase the residential monthly customer charge could increase to \$24.13 in the first year, and then under the second phase increase to \$30.75. Taking this approach would allow residential customers to absorb the higher monthly charge over a longer period of time, in turn partially mitigating potential rate shock.

Thus, the Attorney General respectfully requests the Commission to continue to rely upon the principle of gradualism when awarding South Kentucky any increase to the residential monthly customer charge as well as the energy charge. Simply put, South Kentucky has requested an extremely large rate increase to both the monthly customer charge as well as the energy charge. Due to the alarmingly high poverty rates in the Company's service area, including one of the poorest counties in the entire country, this request, if fully granted, will only further increase the economic hardships faced by the South Kentucky member customers.

III. The Commission should only allow what is reasonable when evaluating South Kentucky's Employee Compensation and Benefit Plan Expenses.

³¹ Case No. 2014-00396, *In the Matter of Application of Kentucky Power Company for: (1) A General Adjustment of its Rates for Electric Service; (2) An Order Approving its 2014 Environmental Compliance Plan; (3) An Order Approving its Tariffs and Riders; and (4) An Order Granting All Other Required Approvals and Relief*, (Ky. PSC June 22, 2014) ("the Commission has long employed the principle of gradualism"); *See also* Case No. 2000-00080, *In the Matter of: The Application of Louisville Gas & Electric Company to Adjust its Gas Rates and to Increase its Charges for Disconnecting Service, Reconnecting Service and Returned Checks* (Ky. PSC Sept. 27, 2000) ("the Commission is adhering to the rate-making concepts of continuity and gradualism in order to lessen the impact of these increases on the customers that incur these charges.")

The Commission should closely review South Kentucky’s requested increases in labor and benefits. Of note, in 2025 South Kentucky began paying 80% of the health insurance premiums for single-only coverage and for all family coverage options.³² Per the 2024 Bureau of Labor Statistics (“BLS”) study, the employer-paid averages for single and family coverages are 80% and 68%, respectively.³³ Essentially, South Kentucky’s percentage of family premiums is 12% higher than the average employer.

The Attorney General respectfully requests that the Commission reduce the recovery of health insurance expense for family coverage to 68%, reflecting the 2024 BLS average. This adjustment would result in \$129,144 reduction in the revenue requirement. This recommendation was based upon the findings of Mr. Futral, as stated in his testimony,³⁴ which was in turn not refuted in the rebuttal testimonies provided by South Kentucky. Importantly, such a decision is supported by previous Commission precedent. In South Kentucky’s previous rate case, Case No. 2021-00407, the Commission reduced authorized health insurance premiums in order to correspond to the BLS averages.³⁵ In fact, in the June 30, 2022 Final Order, the Commission asserted that a reduction to the revenue requirement of \$307,481 was, “appropriate to limit employer insurance benefit contribution rates to a more reasonable level.”³⁶ Furthermore, in the Final Order in Case No. 2023-00158 the following was stated: “the Commission has since maintained the position that employee

³² Application at Mr. Wolfram’s Exhibit JW-2 at Reference Schedule 1.16 HDHP Health Insurance Premiums (page 46 of 51). The Company revised this schedule and supplied the revision along with the responses to the AG’s First Set of Requests on April 11, 2024.

³³ <https://www.bls.gov/news.release/ebs2.t03.htm>, Table 3 and <https://www.bls.gov/news.release/ebs2.t04.htm>, Table 4.

³⁴ Futral Testimony at 44.

³⁵ 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 Jun. 30, 2022), Order at 9.

³⁶ *Id.*

contribution rates of less than 12 percent will be adjusted to the Bureau of Labor Statistics (BLS) average.”³⁷

Another issue pertains to the costs paid for the employee’s NRECA pension plan. As noted in the direct testimony of Carrie Bessinger, employees become eligible for this plan following a year of employment with South Kentucky.³⁸ Despite this, South Kentucky’s proforma calculations does not reflect the one-year waiting period for employees. With the data provided in discovery, South Kentucky had an average of 19 new hires per year, based upon the years of 2022, 2023, and 2024.³⁹ Using the available information, Mr. Futral recommended a \$266,412 decrease in retirement plan spending and in turn to the requested base rate increase.⁴⁰ In her rebuttal testimony, Ms. Bessinger, contested the average of 19 new hires per year, and provided data that went back to 2015.⁴¹ With this additional data, the current average of new hires per year is 12, a figure that Ms. Bessinger stated was “likely correct” during the evidentiary hearing.⁴² Using an average of 12 new hires per year, a reduction of \$168,260 from the Company’s requested rate increase is now supported. South Kentucky’s customers should not be responsible to pay the benefits for new employees when they are not eligible for said benefits.

Due to the aforementioned issues, the Attorney General respectfully urges the Commission to closely review and evaluate South Kentucky’s compensation and benefit plans and only allow what is reasonable, and which will lead to fair, just, and reasonable rates.

³⁷ 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 10.

³⁸ Direct Testimony of Carrie Bessinger (“Bessinger Testimony”) at 10

³⁹ South Kentucky’s response to AG 1-60(c).

⁴⁰ Futral Testimony at 32.

⁴¹ Bessinger Testimony at 7-8.

⁴² VTE 51:00 -51:30.

IV. Excessive Payroll Tax Expenses should be reduced.

In South Kentucky's application, the proforma payroll amount reflects a tax percentage of 7.70% for total salaries and wages.⁴³ Based upon the data received during discovery,⁴⁴ Mr. Futral deduced that the tax percentage applicable to all wages was actually only 7.28%, as there was a non-taxable component of the wages paid that was not factored into South Kentucky's proforma adjustment.⁴⁵ Application of the various payroll tax percentages to only taxable wages reduces the payroll tax increase percentage to 5.8%,⁴⁶ rather than the 11.9% reported by the Company.⁴⁷ Effectively, this supports a \$31,361 reduction of expenses, as advised by Mr. Futral in his testimony.⁴⁸ This recommendation was not rejected or acknowledged in the rebuttal testimonies filed by South Kentucky. Given these factors, the Attorney General respectfully requests that the Commission review this matter and order the supported reduction as recommended by Mr. Futral.

V. The Commission should deny South Kentucky's request to increase its right-of-way expense by \$2,170,683.

South Kentucky incurred actual right-of-way ("ROW") maintenance expense of \$11,604,593⁴⁹ during the test year, but it made no proforma adjustment to adjust that expense amount to a more normal recurring level of expense. South Kentucky's failure to adjust the actual test year amount is problematic because the level of expense for circuit mile trimming ROW maintenance was higher than normal during the test year. As noted by Mr. Futral, the 2021 and 2022 ROW expenses averaged only \$3,785,335.⁵⁰ The amount increased significantly

⁴³ Direct Testimony of John Wolfram at 11 and his Exhibit JW-2 at Reference Schedule 1.10 Wages and Salaries (pages 23-27 of 51) at line 171.

⁴⁴ South Kentucky's attachment response to AG 1-47 (a).

⁴⁵ Futral Testimony at 27.

⁴⁶ *Id* at 28.

⁴⁷ Direct Testimony of John Wolfram at 11 and his Exhibit JW-2 at Reference Schedule 1.10 Wages and Salaries (pages 23-27 of 51) at line 171.

⁴⁸ Futral Testimony at 28.

⁴⁹ AG 1-53(a)(c)(d) filed in response to AG 1-53.

⁵⁰ *Id*; Futral Testimony at 16.

starting in 2023 to be compliant with the Commission's Order in Case No. 2021-00407 that South Kentucky develop a five or six-year cycle trimming program. South Kentucky initiated a six-year cycle trimming plan in 2023.⁵¹ South Kentucky plans to trim 836.26 miles per year on average to meet a six-year cycle trimming goal of trimming its current total of 5,017.54 circuit miles.⁵²

Of the \$11,604,593 in total ROW test year expense, \$9,235,766 was related to contractor circuit mile trimming. That compares to contractor circuit mile trimming expense of only \$6,043,354 in 2023 and \$7,304,060 in 2024. The contractor circuit mile trimming ROW maintenance expense during the test year was \$2,562,059 higher than the average for 2023 and 2024 combined.⁵³ The number of miles trimmed in the test year amounted to 1,093.19 miles, a much higher total than trimmed in 2023 and 2024 and higher than the averages miles of trimming needed of 836.26 miles per year.⁵⁴ As Mr. Futral stated in his testimony, the available data shows that ROW maintenance costs were higher than normal during the test year, and thus normalization is required.⁵⁵

Per Mr. Futral's calculations, the actual average cost per mile trimmed in the test year is \$8,448 per mile.⁵⁶ He recommended that the circuit mile ROW trimming expenses be reduced by \$2,170,683 to reflect 836.26 miles being trimmed at the average test year cost per mile.⁵⁷ Mr. Futral also noted that the, average cost of ROW trimming per mile is set to decrease from the \$8,448 per mile level in 2025.⁵⁸

⁵¹ Newton Testimony at 5-6.

⁵² South Kentucky's Response to AG-53(i)

⁵³ AG-1-53(g)(h) filed in response to AG 1-53.

⁵⁴ *Id.*

⁵⁵ Futral Testimony at 16.

⁵⁶ *Id.* at 23.

⁵⁷ *Id.*

⁵⁸ *Id.*; South Kentucky's response to AG 1-53(m)

In Ms. Bessinger's rebuttal testimony, South Kentucky rejected the findings of the Attorney General, citing trimming delays in 2023 and 2024 as well as inflation.⁵⁹ She did not address why South Kentucky failed to perform a normalization adjustment even though the 1,093.19 miles trimmed of exceeded the 836.26 average annual trim required of to meet a six-year trim cycle. She also did not address why the contractor circuit mile trimming ROW expense of \$9,235,766 was so much higher than the amounts incurred during both 2023 and 2024. In addition, the Company failed to acknowledge the fact that the data suggests that the average cost per mile trimmed decreased in 2025.

The Attorney General requests for the Commission to continue to require and encourage South Kentucky to pursue all opportunities to decrease ROW management expenses and strive for the lowest cost per ROW mile trimmed. The data supports the findings of Mr. Futral, and as such, residential customers should not have to bear the burden of an inflated ROW budget.

VI. South Kentucky incorrectly uses Operating Times Interest Earned ("OTIER") in lieu of Times Interest Earned Ratio ("TIER").

In the application, South Kentucky specifically requested the use of a 1.85 OTIER for setting its base revenue requirement.⁶⁰ Use of the 1.85 OTIER in this case translates to a 2.29 TIER⁶¹, which is substantially higher than the 2.0 TIER the Commission typically grants. Furthermore, 1.85 OTIER translated to a 2.30 TIER in South Kentucky's Rebuttal revenue requirement update.⁶² By using OTIER, South Kentucky is requesting that non-operating income items be excluded from the calculations of the revenue deficiency. Specifically, South Kentucky has ignored \$1,695,485 in interest income from the test year derived from the RUS Cushion of Credit and other investment

⁵⁹ Bessinger Rebuttal at 7

⁶⁰ Application at 4.

⁶¹ Application at Mr. Wolfram's Exhibit JW-2 at the Statement of Operations & Revenue Requirement (page 1 of 51) at line 36.

⁶² South Rev. Req. Rebuttal filed June 13, 2025.

interest income.⁶³ If a TIER of 2.0 is used to calculate the revenue deficiency, as is the common practice of the Commission, the result is a \$1,581,608 deduction, as highlighted by Mr. Futral in his testimony.⁶⁴ Taking these factors into consideration, South Kentucky is improperly inflating the revenue requirement in this case by requesting an OTIER of 1.85. Approving an increase of this level would serve to disincentive South Kentucky from controlling its discretionary spending, at the expense of residential customers.

South Kentucky has failed to meet its burden of proof to demonstrate why a 1.85 OTIER, which equals an excessively high 2.30 TIER, should be granted by the Commission. South Kentucky improperly cites recent streamlined rate cases as its only rationale for requesting to utilize an OTIER to set base rates. Essentially, South Kentucky argues that because a 1.85 OTIER can be granted in streamlined rate cases, it should be granted in this pending general rate case.⁶⁵ First, South Kentucky made the decision to file a general rate case, instead of a streamlined rate case that are inapplicable to the pending case. Second, South Kentucky fails to acknowledge that in streamlined rate cases, while an OTIER of 1.85 may be granted, any requested revenue increase is also capped at 4%.⁶⁶ In the pending case, South Kentucky requests a 7.16%⁶⁷ revenue increase – almost double what is allowed under a streamlined rate case. The procedures set forth for the streamlined rate cases were not made to allow for significantly large increases in the revenue requirement, which is very much the reality in this case. South Kentucky is attempting to have the best of both worlds by requesting the higher OTIER/TIER that is potentially allowed under a

⁶³ Application at Mr. Wolfram's Exhibit JW-2 at the Statement of Operations & Revenue Requirement (page 1 of 51) at line 26; Futral Testimony at 8.

⁶⁴ Futral Testimony at 12.

⁶⁵ Wolfram Testimony at 7-8.

⁶⁶ Case No. 2018-00407, *A Review of the Rate Case Procedure for Electric Distribution Cooperatives* (Ky. PSC Mar. 25, 2019), Order at Appendix A.

⁶⁷ Newton Testimony at 4.

streamlined rate case, as well as the higher percentage rate increase allowed under a general rate case. The Commission should deny this request.

In his rebuttal testimony, Mr. Wolfram argued that OTIER should be used, as it is the most optimal metric for measuring loan covenants.⁶⁸ Interestingly, in South Kentucky's responses to the Commission's Staff discovery questions, the Company verified that it only requires an average 1.25 TIER, 1.25 Debt Service Coverage Ratio (DSCR) and 1.10 OTIER to meet the requirements of its RUS/FFB loan agreements. Furthermore, it only requires an average of 1.35 DSCR for CFC loans.⁶⁹ As such, having a TIER of 2.30 or 1.85 OTIER, as requested by the Company, is not necessary to meet loan covenants. Indeed, this highlights why South Kentucky's request is unnecessary and inflates the requested rate increase on its member customers.

Traditionally, for general rate cases, it has been the precedent of the Commission to award revenue increases based upon TIER calculations, rather than OTIER calculations. In fact, in South Kentucky's last rate case, Case No. 2021-00407, the Company made a similar argument requesting that non-operating margins be removed from calculations of income in regard to the revenue requirement, essentially requesting that OTIER be utilized. The Commission found the Company's arguments unpersuasive and ordered that South Kentucky's base rates be set based upon a 2.0 TIER, which included the non-operating margins.⁷⁰ South Kentucky has failed to address the Commission's previous Final Order in its last rate case or cite any changes in precedent that warrant OTIER being utilized.

⁶⁸ Wolfram Rebuttal at 3.

⁶⁹ South Kentucky's Response to Staff 1-54

⁷⁰ Case No. 2021-00407, *In the Matter of Electronic Application of South Kentucky Rural Electric Cooperative Corporation or a General Adjustment of Rates, Approval of Depreciation Study, and Other General Relief*, Order at 14-15 (Ky. PSC, June 30, 2022)

Finally, it should be again noted that South Kentucky is only requesting a rate increase on one rate class: Residential, Farm, and Non-Farm Service. In other words, the burden of the Company's rate increase predominantly falls upon its residential customers. By requesting a 1.85 OTIER, rather than the typical 2.0 TIER, the Company is essentially requesting that residential customers be responsible for an additional \$1,581,608 in rates. This artificially inflated increase creates an unreasonable and disproportionate burden on residential customers with no discernable benefit to said customers. No compelling argument has been made for this increase and the Company's citing of the streamlined procedure does not satisfy the burden of proof required in the pending general base rate increase case. As such, the Attorney General respectfully requests that the Commission follow established precedent and award a revenue increase based upon equitable and reasonable TIER calculations, instead of the 1.85 OTIER requested by the Company.

VII. A 2.0 TIER is not necessary for South Kentucky to provide safe and reliable electric service.

As previously discussed, South Kentucky has essentially requested a 2.30 TIER, which is much higher than what is commonly granted by the Commission. However, South Kentucky has failed to meet the burden of proof to establish why even a 2.0 TIER will lead to fair, just, and reasonable rates. The authorization of an excessive TIER is a disincentive to control discretionary expenses, such as employee's excessive wages, salaries, raises, benefits, and the like.

First, South Kentucky has not provided any analytical support for a 2.0 TIER, let alone its overly inflated proposed 2.30 TIER. Second, a 2.0 and a 2.30 TIER are both excessive when compared to the financial metrics required by its lenders. As highlighted earlier, South Kentucky's loan covenants for RUS loans require it to meet a 1.25 TIER, 1.25 DSCR, and a 1.10 OTIER. Only a 1.35 DSCR is required for CFC loans.⁷¹ As such, if South Kentucky were awarded a TIER of

⁷¹ South Kentucky's Response to Staff 1-54

1.85, they would still be able to meet loan covenants, as well as have a large cushion. Thus, based upon South Kentucky's loan covenants, a 2.0 TIER is excessive, let alone the proposed 2.30 TIER.

Second, neither a 2.0 nor 2.30 TIER is necessary to increase member's equity from present levels. South Kentucky's members' equity to total capitalization ratio was 52.25% at the end of 2024, a number that is already sufficient.⁷² If equity were to be increased, it would impose further unnecessary costs, particularly for residential customers.

In his testimony, Mr. Futral recommended the use of a 1.85 TIER. Mr. Futral asserts that a 1.85 TIER would still be clearly in excess of the minimum credit metrics required by the Company's loan covenants.⁷³ A 1.85 TIER would also still provide healthy margins for South Kentucky, while also reducing the requested revenue increase by \$815,454. Based upon Mr. Futral's findings, the Attorney General asserts that a maximum TIER of 1.85 is reasonable for South Kentucky.

A TIER of 1.85 translates to an OTIER of 1.41 using the Company's as-filed cost of service parameters and an OTIER of 1.40 after all of Mr. Futral's adjustments. These levels are far more than the minimum credit metric TIER level of 1.25 and OTIER level of 1.10 required by South Kentucky's loan covenants.⁷⁴ The 1.85 TIER level provides a cushion of over \$3.2 million in net margin over the 1.25 TIER minimum required by the RUS/FFB loans. The 1.40 OTIER level allows for a cushion of over \$1.6 million in net margin over the 1.10 OTIER minimum required by the RUS/FFB loans.⁷⁵

⁷² Futral Testimony at 13.

⁷³ *Id.* at 15.

⁷⁴ *Id.*

⁷⁵ *Id.*

In his rebuttal testimony, Mr. Wolfram argues that the 1.85 TIER offered by Mr. Futral is arbitrary and not appropriate.⁷⁶ In the same rebuttal, he states that the Company is relying on Commission precedent as support for the 1.85 OTIER.⁷⁷ As aforementioned, the Company's prior use of the streamlined rate procedures as relevant precedent is completely inappropriate since South Kentucky chose to file a general rate case – not a streamlined case. As stated earlier, the streamlined rate procedure also limits any revenue increase by 4%, which would translate to a much lower OTIER and TIER if applied to this case.

Mr. Wolfram further cites to Case No. 2021-000358, as a basis to reject the recommendation of a 1.85 TIER. Specifically, he cites the Commission's decision to reject a proposed 1.50 TIER, as it could negatively impact cash flow.⁷⁸ However, Mr. Wolfram conveniently did not mention that in that same Order, the Commission also states that, "the authorized TIER for an electric distribution cooperative will be addressed on a case by case basis, and the current interest rates for the cooperative and market conditions must be part of the consideration."⁷⁹ This Commission Order actually supports the Attorney General's recommendation of a 1.85 TIER. The Commission did not state in the decision that it would always grant a TIER of 2.00 in every general rate case. Instead, it stated that it would consider the matter on a "case by case basis."

Simply put, a 2.0 or a 2.30 TIER results in unfair, unjust, and unreasonable rates for the Company's member customers. Therefore, the Attorney General respectfully requests the

⁷⁶ Wolfram Rebuttal at 6.

⁷⁷ Id at 5

⁷⁸ Wolfram at 5

⁷⁹ 2 Case No. 2021-00358, *Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment of Rates and Other General Relief*, (Ky. PSC Apr. 8, 2022), Order at 16 – 18.

Commission adopt Mr. Futral's recommendation and limit South Kentucky's approved TIER to a 1.85, or less.

CONCLUSION

WHEREFORE, the Attorney General requests that the Commission deny South Kentucky's requested rate increase. If the Commission is inclined to grant a rate increase, it should be limited to what South Kentucky has proven with known and measurable evidence that will result in fair, just, and reasonable rates for the Company's customers

Respectfully submitted,

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Certificate of Service and Filing

Pursuant to the Commission's Orders and in accord with all other applicable law, Counsel certifies that the foregoing electronic filing was transmitted to the Commission on August 8, 2025, and there are currently no parties that the Commission has excused from participation by electronic means in this proceeding.

This 8th day of August, 2025

A handwritten signature in blue ink, appearing to read "Thomas John" followed by a stylized flourish.

Assistant Attorney General