

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF)	
BLUE GRASS ENERGY COOPERATIVE)	CASE NO.
CORPORATION FOR A GENERAL)	2025-00103
ADJUSTMENT OF RATES PURSUANT)	
TO 807 KAR 5:078)	

**BLUE GRASS ENERGY COOPERATIVE CORPORATION’S
COMMENTS IN SUPORT OF APPLICATION**

Comes now Blue Grass Energy Cooperative Corporation (“Blue Grass Energy”), by counsel, pursuant to the Commission’s May 14, 2025 Order, and in further support of its Application requesting a general adjustment of its existing rates, respectfully offers the following comments:

Blue Grass Energy is a not-for-profit, member-owned, rural electric distribution cooperative organized under KRS Chapter 279 that provides retail electric service to approximately 64,000 metered accounts in the Kentucky counties of Anderson, Bourbon, Bracken, Estill, Fayette, Franklin, Garrard, Grant, Harrison, Henry, Jackson, Jessamine, Madison, Mercer, Nelson, Nicholas, Pendleton, Roberson, Scott, Shelby, Spencer, Washington, and Woodford.¹ Approximately sixty-one (61) percent of Blue Grass Energy’s total energy usage is consumed by residential customers.² Using a historical, twelve-month test period ending on December 31, 2024,

¹ Application at 1 (filed May 1, 2025).

² Application, Exhibit 32, Direct Testimony of Lauren Logan (“Logan Direct Testimony”) at 5.

Blue Grass Energy seeks approval to increase its annual revenues by \$3,186,466, or 1.96%, to achieve an Operating Times Interest Earned Ratio (“OTIER”) of 1.85.³

Blue Grass Energy is proposing to increase the residential class customer charge from \$17.10 to \$23.60 per month and no change to the energy charge.⁴ This would result in a \$4.25, or 2.78%, increase to the average residential user.⁵ Blue Grass Energy is also proposing to increase the monthly customer charge in Schedule GS-2 – Residential and Farm Inclining Block (“Schedule GS-2”) from \$14.36 to \$20.86 with no change to the energy charge.⁶ Blue Grass Energy proposed to change the energy charge for Schedule GS-3 – Residential and Farm Time-of-Day (“Schedule GS-3”) from \$0.11357 to \$0.17036.⁷ Blue Grass Energy proposed various changes to Lighting rates.⁸ Each of these rate design proposals is consistent with the Cost-of-Service Study (“COSS”) prepared by Mr. John Wolfram.⁹

Blue Grass Energy filed its last general rate case in 2014, more than a decade ago.¹⁰ Inflationary pressures have continued to erode the cooperative’s margins. Inflation has driven

³ Logan Direct Testimony at 4.

⁴ Application, Exhibit 6.

⁵ Application, Exhibit 6.

⁶ Application, Exhibit 6.

⁷ Application, Exhibit 6.

⁸ Application, Exhibit 6.

⁹ Application, Exhibit 33, Direct Testimony of John Wolfram, Exhibit JW-3 through JW-8 (“Wolfram Direct Testimony”).

¹⁰ Case No. 2014-00339, *Application of Blue Grass Energy Cooperative Corporation for an Adjustment of Rates*, May 29, 2015 Order (Ky. PSC. May 29, 2015).

labor expenses and material costs significantly higher over the past several years. Interest rates have also increased sharply in the last several years.¹¹

Also, a significant impact of the COVID-19 pandemic on Blue Grass Energy has been the tremendous cost increases in essential materials utilized each day for the provision of reliable services to its members. These increases have occurred across virtually every expense category. Blue Grass Energy has been able to offset many of these costs and delay a base rate increase through prudent management practices, however, Blue Grass Energy's financial metrics are below what is necessary to continue to provide safe and reliable service.

Despite the increasing inflationary pressures and rising costs, Blue Grass Energy continues to focus on lowering or controlling expenses. Blue Grass Energy continually evaluates staffing and has lowered the number of employees.¹² However, Blue Grass Energy cannot continue to reduce its workforce and still provide safe and reliable service. Blue Grass Energy refinanced several RUS loans with CFC to take advantage of lower interest rates.¹³ Blue Grass Energy continuously and actively monitors its borrowing and long-term debt and used the RUS Cushion of Credit program to its advantage.¹⁴ Blue Grass Energy also actively monitors investments to maximize interest and maintain sufficient cash flow. Blue Grass Energy transitioned from an R&S defined benefit plan to a 401(k) plan, which resulted in a lower cost for Blue Grass Energy.¹⁵ Additionally, Blue Grass Energy moved from the NRECA insurance plan to a self-insured model.¹⁶

¹¹ See generally, Blue Grass Energy's Response to the Attorney General's First Request, Item 4.

¹² Blue Grass Energy's Response to the Attorney General's First Request, Item 4.

¹³ Application, Exhibit 31, Direct Testimony of Michael Williams ("Williams Direct Testimony") at 5.

¹⁴ Blue Grass Energy's Response to the Attorney General's First Request, Item 4.

¹⁵ Williams Direct Testimony at 5.

¹⁶ Williams Testimony at 5-6.

While Blue Grass Energy has had several cost-saving initiatives since its last general rate increase, its financial metrics have generally deteriorated. In 2024, Blue Grass Energy's OTIER was 1.00¹⁷; and, through April 2025 it was 1.14.¹⁸ The requested OTIER in this rate application will allow Blue Grass Energy to operate in a healthy manner and meet financial covenants in future years.

Consistent with the Commission's streamlined rate adjustment regulations, and general ratemaking principles, Blue Grass Energy made adjustments to the test year expense to account for: the fuel adjustment clause, the environmental surcharge, rate case expense, year-end customer normalization, generation and transmission capital credits, retirement plans, depreciation expense normalization, advertising and donations, Director's expenses, interest expense, life insurance premiums, wages and salaries, payroll taxes, and professional services.¹⁹

In allocating the proposed rate increase, Mr. Wolfram prepared a COSS using standardized procedures whereby: (1) costs were functionalized to the major functional groups; (2) costs were classified as energy-related, demand-related, or customer-related; and then (3) costs were allocated to the rate classes.²⁰ Mr. Wolfram's detailed analysis demonstrated that Blue Grass Energy is not recovering its costs from the residential rate classes while it is over-recovering its costs with regard to other customer classes. As explained by Mr. Wolfram: (1) the COSS demonstrates a need to increase the rates for residential customers; and (2) the COSS supports a

¹⁷ Blue Grass Energy's Response to the Attorney General's First Request, Item 4(h).

¹⁸ Blue Grass Energy's Response to the Attorney General's First Request, Item 4(h).

¹⁹ Wolfram Direct Testimony at 8-14.

²⁰ Wolfram Direct Testimony at 14-18.

fixed monthly customer charge of \$23.60 for residential customers while the current charge is only \$17.10.²¹ The requested increase of \$6.50 per month is offset by a decrease to the energy charge. So, overall the residential class will only see an increase of approximately 2.78%. The proposed increase to residential rates amounts to a gradual change that eliminates subsidization of residential rate class by the other rate classes. This is not only gradual but it is also fair, just, and reasonable.

A significant factor in revenue for distribution cooperatives is moderate temperatures that yield lower-than-expected residential demand. To mitigate the volatility of temperatures, Blue Grass Energy has chosen to allocate the rate increase to the monthly customer charge rather than the kWh energy charge. With the small margins that a 1.85 OTIER allows, and the fact that a distribution cooperative does not have shareholders, cooperatives are faced with tough decisions on where to get the funds needed to pay for unexpected expenses as well as the everyday expenses to provide safe and reliable service to its members. Blue Grass Energy believes this will allow Blue Grass Energy to experience less volatility in its revenues and for its customers to experience less volatility in their monthly bills.

The evidence in this proceeding is that the fixed costs to serve Blue Grass Energy's members is \$23.60. 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

²¹ Wolfram Direct Testimony at 21.

intricacies of Blue Grass Energy's system and produced a just and reasonable cost required to service customers on that system.

As previously mentioned, increasing labor costs are a significant contributor to the need for a rate adjustment. Blue Grass Energy operates in a competitive labor market, and given the location of Blue Grass Energy it is also competing for qualified employees with the large investor-owned utilities in the area. This is especially true for linemen and technically trained employees. This creates an upward pressure on wages and benefits to be able to attract and retain quality employees to serve Blue Grass Energy's members.

Throughout the discovery process, the Attorney General requested information on Blue Grass Energy's salary and benefits. Blue Grass Energy believes that its salary and benefits are reasonable and comparable when considering the wage and salary survey provided,²² which takes into account its location near the state's major metropolitan areas. Blue Grass Energy responded to these issues in more detail in responses to the Attorney General's requests for information.²³ Blue Grass Energy believes its level of health insurance contributions, life insurance contributions, and salary are reasonable and should be accepted by the Commission in this proceeding.

While, Blue Grass Energy's revenue requirement in the current rate application does not include a proforma adjustment for right-of-way expense these expenses contribute significantly to Blue Grass Energy's expenses. Blue Grass Energy is committed to providing reliable electric service to members which requires an investment in right-of-way. While financially treated as an expense, right-of-way management is an investment in the future of the system. Right-of-way that

²² Blue Grass Energy's Responses to Commission Staff's First Request for Information, Item 11.

²³ Blue Grass Energy's Responses to the Attorney General's First Request for Information, Items 6, 7, and 8.

is adequately maintained will result in decreased outages, less labor costs due to decreased overtime labor, and reduced loss of revenue. In addition to the financial benefits, member aggravation due to outages is also alleviated.

Blue Grass Energy pays membership dues for inclusion in various associated organizations such as NRECA and the Kentucky Electric Cooperatives. These peer groups provide many best practice opportunities, safety guidance, continuing education, and advocacy. One of the seven guiding principles of electric cooperatives is Commitment to Community and these affiliations help Blue Grass Energy to follow and achieve the purposes of this principle. While there are a number of benefits to Blue Grass Energy for participating in these organizations, it should be noted that these membership dues are excluded from the revenue requirement in this case.

As stated above, one of the seven guiding principles for an electric cooperative is Commitment to Community. In order to abide by this guiding principle, Blue Grass Energy must be involved in the community that it serves. Volunteering, sponsoring community events and other charitable donations are some of the ways that an electric cooperative can give back to the community, which is ultimately the owners of the electric cooperative. Even though these items are not included in the revenue requirement and not recoverable for rate-making purposes, they are necessary items that a cooperative needs to invest in to give back to the community that it serves.

Blue Grass Energy is mindful of the timing of its rate case filing and of the fact that no increase is ever welcomed by customers. Taking this into consideration, Blue Grass Energy's management has worked diligently to mitigate costs wherever possible and has been able to avoid a rate increase to its members for a decade. However, as the Commission has opined regularly, a cooperative has a duty to safeguard its financial integrity for the benefit of its members who are

also its customers.²⁴ In this particular case, based on the adjusted test year under the OTIER cap, the revenue deficiency is \$3,186,466. However, pursuant to 807 KAR 5:078, Blue Grass Energy is only permitted to request and adjustment of rates of up to 1 percent per year since its last rate adjustment or an OTIER of 1.85. Should the Commission choose to disallow any costs in Blue Grass Energy's pro forma adjustments included within the test year, Blue Grass Energy respectfully requests the option to still award a 1.85 OTIER that has been requested. This will allow Blue Grass Energy to maintain compliance with its loan covenants.

In summary, Blue Grass Energy's proposal is fair, just, and reasonable both in regard to the amount of the revenue request and the rate design. Blue Grass Energy is grateful to the Commission for allowing this case to proceed under the streamlined rate case procedures and appreciates the Attorney General's constructive participation in the case. For the reasons set forth above, Blue Grass Energy respectfully requests the Commission to approve its Application and authorize the new rates.

This the 20th day of June, 2025.

²⁴ See, e.g., Case No. 2008-00371, *In the Matter of the Application of South Kentucky Rural Elec. Coop. Corp. for A Certificate of Pub. Convenience & Necessity to Construct A New Headquarters Facility in Somerset, Kentucky*, Order, (Ky. P.S.C. May 11, 2010) ("South Kentucky's board of directors owes a fiduciary duty to its customers to safeguard the financial and operational viability of the cooperative. This fiduciary duty is heightened given the fact that South Kentucky's customers are also the owners of the cooperative."); Case No. 2006-00472, *In the Matter of the General Adjustment of Electric Rates of East Kentucky Power Cooperative, Inc.*, Order, , pp. 26-27 (Ky. P.S.C. Dec. 5, 2007):

Unlike an investor-owned utility where the equity owners of the utility may or may not also be customers of the utility, an RECC is governed and owned by its members, who are also its customers. While members of the 16-member systems have an interest in keeping their distribution cooperative's rates as low as possible, they also have an interest in keeping their distribution cooperative's equity position in EKPC viable. The directors of EKPC — who generally are also officers and directors of the 16-member systems — have an obligation to either seek an increase or decrease in EKPC's base rates when the balance between low rates for end users and sufficiently high rates to keep EKPC viable falls out of equilibrium. Though there is a constant friction between these interests, it is one EKPC's board members voluntarily undertake.

Respectfully submitted,

Heather S. Temple

L. Allyson Honaker
Heather S. Temple
Meredith Cave
HONAKER LAW OFFICE PLLC
1795 Alysheba Way, Suite 6202
Lexington, Kentucky 40509
(859) 368-8803
allyson@hloky.com
heather@hloky.com
meredith@hloky.com

*Counsel for Blue Grass Energy
Cooperative Corporation*

CERTIFICATE OF SERVICE

This is to certify that the electronic filing was transmitted to the Commission on June 9, 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

*Counsel for Blue Grass Energy
Cooperative Corporation*