

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE ELECTRONIC APPLICATION OF	)	
FARMERS RURAL ELECTRIC	)	CASE NO.
COOPERATIVE CORPORATION	)	2025-00107
FOR A GENERAL ADJUSTMENT OF RATES	)	

**FARMERS RURAL ELECTRIC COOPERATIVE
CORPROATION’S POST-HEARING BRIEF**

Comes now, Farmers Rural Electric Cooperative (“Farmers”), by counsel, pursuant to the Kentucky Public Service Commission’s (“Commission”) September 22, 2025 Order, and for its brief in support of its position hereby states as follows:

INTRODUCTION

Farmers’ 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 Farmers’ business operations.

Consistent with KRS 278.030(1), Farmers seeks approval to increase its annual revenues by \$2,365,822.¹ This will allow Farmers to achieve an Operating Times Interest Earned Ratio (“OTIER”) of 1.85. Farmers based its proposed rates on a twelve-month historic test period ending

¹ Application at Paragraph 4 (filed May 5, 2025).

December 31, 2024. Included in the request is an increase of the monthly residential customer charge from \$18.12 to \$27.79. 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 Farmers’ 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. Farmers 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

Farmers filed its Notice of Intent to file this rate proceeding on April 1, 2025.² Farmers filed its Application on May 5, 2025.³ The Attorney General was granted intervention on May 5, 2025.⁴ The Commission entered an Order on May 13, 2025, suspending the rates proposed by Farmers until November 4, 2025.⁵ Farmers responded to four rounds of discovery from Commission Staff⁶ and two rounds of discovery from the Attorney General.⁷ A formal hearing

² Notice of Intent (filed April 1, 2025).

³ Application (filed May 5, 2025).

⁴ May 5, 2025 Order (Ky. PSC. May 5, 2025).

⁵ May 13, 2025 Order (Ky. PSC. May 13, 2025).

⁶ Responses to Commission Staff’s First Data Request (Responses to Staff’s First Request) (filed May 19, 2025); Responses to Commission Staff’s Second Data Request (Responses to Staff’s Second Request) (filed June 12, 2025); Responses to Commission Staff’s Third Data Request (Responses to Staff’s Third Request) (filed July 16, 2025); Responses to Commission Staff’s Post-Hearing Request (filed October 1, 2025).

⁷ Responses to Attorney General’s First Data Request (Responses to AG’s First Request) (filed June 12, 2025); Responses to Attorney General’s Second Data Request (Responses to AG’s First Request) (filed July 16, 2025).

was held on September 18, 2025.⁸ Farmers now submits the following brief in support of its position.

ARGUMENT

I. *Farmers' Pro Forma Adjustments and Revenue Requirement are Reasonable and Should Be Accepted by the Commission.*

Farmers' leadership and Board of Directors 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. Farmers attempted to manage the rising costs of providing service with a rate increase in 2023; however, this rate increase did not allow Farmers 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. To ensure the Cooperative maintains the necessary financial metrics, Farmers is requesting an increase in revenue of \$2,365,822 or 3.94% to achieve an OTIER of 1.85.

Farmers' revenue requirement is proposed to be allocated by increasing the Residential Service customer charge from \$18.12 to \$27.79 and decreasing the energy charge from \$0.100666 to \$0.099057. These adjustments result in a 5.92% adjustment for Residential Service or approximately \$7.99 per month.¹⁰ Farmers made pro forma adjustments that remove revenues and expenses that are addressed in other rate mechanisms, are ordinarily excluded from rates, and are

⁸ Hearing Video Testimony of the September 18, 2025 Hearing ("HVT").

⁹ Case No. 2023-00158, *Electronic Application of Farmers Rural Electric Cooperative Corporation for a General Adjustment of Rates Pursuant to Streamlined Procedures Pilot Program Established in Case No. 2018-00407 Ky.* PSC October 3, 2023).

¹⁰ Application, Exhibit 5.

non-recurring.¹¹ The Attorney General made multiple recommendations on various pro forma adjustments that resulted in a \$1,100,255 reduction in revenue.¹² These include reductions in rate revenue, payroll – propane, payroll – overtime, ROW, and healthcare costs. None of the revisions made by the Attorney General should be accepted because they are not supported by the evidence and would not result in fair, just and reasonable rates.

Included in Farmers’ revenue request are anticipated right-of-way expenses. Farmers is requesting an increase in ROW costs of \$393,820 for a total of \$2.5 million.¹³ Farmers believes the most appropriate cycle for its ROW management is seven (7) years.¹⁴ Due to Farmers poor financial metrics it has not been able to achieve the seven-year cycle in many years. Farmers’ estimate is it is on a ten (10) year cycle.¹⁵ If Farmers does not adjust its ROW expenses it will never be able to catch up its cycles. Which could lead to Farmers’ members experiencing problems with their service due to poor ROW conditions.

The Attorney General made an adjustment to Farmers’ pro forma adjustment for ROW maintenance expense by \$393,820.¹⁶ The Attorney General argued that because Farmers has not historically cleared its budgeted miles per year the adjustment amount is unreasonable and should be reduced.¹⁷ What the Attorney General fails to acknowledge is that Farmers’ ROW maintenance

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

¹² OAG Direct Testimony of Greg R. Meyer with Exhibits at 5 (“Meyer Direct Testimony”) (filed August 20, 2025).

¹³ Application, Exhibit

¹⁴ HVT at 9:19:21.

¹⁵ HVT at 9:19:45.

¹⁶ Meyer Direct Testimony at 21-22.

¹⁷ Meyer Direct Testimony at 21-22.

has historically been underfunded. Continuing to underfund Farmers ROW management will only lead to more problems. Additionally, the Attorney General argued the bid amounts are overstated and the bids for 2025-2026 should not be used.¹⁸ This is simply incorrect. The bids Farmers utilized are the actual bids.¹⁹ The Commission, and the Attorney General, are aware of the rapidly increasing costs for ROW management. Not allowing Farmers the requested pro forma adjustment will only set Farmers further and further behind in its efforts on ROW management. The Attorney General's position is arbitrary and unfounded. The Attorney General's position is unreasonable.

Farmers anticipates the Attorney General will argue that Farmers curtailing its ROW maintenance in 2025 is another indicator it does not need the additional ROW management expense. Farmers explained that when margins are bad the cooperative must prioritize its spending.²⁰ In the 2024 test year, for every \$1.00 of revenue Farmers receives; \$0.71 goes to EKPC for the purchased power, and \$0.29 is remaining for expenses.²¹ In 2025, the extremely cold weather in the beginning of the year caused the purchased power expense to rise. This means that for 2025 of the \$1.00 in revenue \$0.73 is going to EKPC for purchased power.²² Farmers only has \$0.27 of income for its operating expenses. The two biggest costs for any distribution cooperative are wages/benefits and ROW expenses. Farmers must pay its employees. Without employees, Farmers could not serve its members. The only other expense Farmers can curtail is

¹⁸ Meyer Direct Testimony at 21-22.

¹⁹ Rebuttal Testimony of Jennie Phelps ("Phelps Rebuttal") at 9 (filed September 10, 2025).

²⁰ HVT at 9:53:01.

²¹ HVT at 9:53:40.

²² HVT at 9:54:20.

ROW expenses. Penalizing Farmers by further reducing its adjustment for ROW would only further exacerbate Farmers ROW issues to the detriment of the members it serves.

The Attorney General alleged that Farmers subsidiary, Farmers Energy Propane Plus (“Propane Plus”) could not operate based upon the organizational chart provided and Farmers’ employees must be providing general and administrative functions of Propane Plus.²³ Based on the assumption that Farmers is providing incorrect information in this proceeding, the Attorney General proposed that 5% of Farmers Chief Executive Officer (“CEO”) and its Vice President, Finance and Accounting be allocated to Propane Plus.²⁴

The Attorney General’s position regarding Propane Plus is subjective, arbitrary, and has no factual basis. The Attorney General’s argument completely ignores the evidence of the record including the cost allocation manual (“CAM”),²⁵ various responses to requests for information providing actual data,²⁶ rebuttal testimony,²⁷ and hearing testimony.²⁸ To accept the Attorney General’s position, the Commission must believe that Farmers is providing incorrect information. Farmers denies this and maintains the level of time Farmers CEO and Vice President spend on Propane Plus.

The Attorney General argued Farmers revenue requirement be adjusted downward by an additional \$300,623 to disincentive, or punish, Farmers for its dues and donations to the

²³ Meyer Direct Testimony at 16.

²⁴ Meyer Direct Testimony at 16-17.

²⁵ Farmers Response to the AG’s Second Request, Item 3.

²⁶ Farmers Response to the AG’s First Request, Item 40; Farmers Response to the AG’s Second Request, Item 2; and Farmers Response to the AG’s Second Request, Item 4.

²⁷ Phelps Rebuttal Testimony at 6-8.

²⁸ HVT at 9:47:46.

communities where its members live.²⁹ The Attorney General further claims this spending is discretionary and that is why Farmers must be punished for the spending.³⁰ The Attorney General's position displays a fundamental misunderstanding of the cooperative principles. Farmers is a member of the National Rural Electric Cooperatives Association ("NRECA"). This membership requires Farmers to abide by the Seven Cooperative Principles. These principles were established because, unlike investor-owned utilities, cooperatives are owned by the members they serve. One of the applicable principles in this situation is democratic control. If Farmers' members dislike the decisions being made by the Cooperative, they can elect different board members to fulfill their wishes. Another cooperative principle is giving back to the Community. Cooperatives are driven by the principle that they must be a good partner for the community they serve. Farmers is no different.

Farmers pays dues to Kentucky Electric Cooperatives ("KEC"). The benefits of being a member of KEC far outweigh the costs. One benefit is safety and compliance training for Farmers employees. If Farmers had to pay for the training, or conduct the training itself, the cost would be exponential. Membership in KEC allows Farmers access to *Kentucky Living* to communicate important information to its members. The Commission signaled that some of these expenses could potentially be included in the revenue requirement do to their importance.³¹

II. Farmers' Rate Design is Reasonable and is Supported by The Cost-of-Service Study.

Farmers engaged the services of Catalyst Consulting LLC ("Catalyst") to perform a comprehensive COSS to assist Farmers in designing its proposed rates. Mr. John Wolfram,

²⁹ Meyer Direct Testimony at 9-11.

³⁰ Meyer Direct Testimony at 9-11.

³¹ HVT at 10:12:15

Principal of Catalyst, conducted the COSS which showed that the residential rate class warranted an increase.³² The COSS supported a residential customer charge of \$27.79³³ Based on the results of the COSS, Farmers proposed to move to cost-based rates and increase the current customer charge of \$18.12 to \$27.79 and decreasing the energy charge from \$0.100666 to \$0.99057.³⁴

Farmers distributed the required rate increase more heavily in the customer charge, as opposed to the energy charge, consistent with the COSS, in part, 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. Also, 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.³⁵ This expected result is because members who can least afford an increase use more energy presumably 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.

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."³⁶ This philosophy from the Commission encapsulates Farmers' approach to determining what the customer charge should be in this case.

³² Application, Exhibit 10, Direct Testimony of John Wolfram at 21.

³³ Application, Exhibit 10, Direct Testimony of John Wolfram at 21.

³⁴ Application, Exhibit 10, Direct Testimony of John Wolfram at 23-24.

³⁵ Response to AG's First Request, Item 8.

³⁶ Case No. 2023-00158, *Electronic Application of Farmers Rural Electric Cooperative Corporation for a General*

Allowing Farmers 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 expenses, as well as everyday expenses, to provide safe and reliable service to its members because there are no shareholders and the requested 1.85 OTIER allows for very small margins.

The Attorney General argues against the movement toward cost-based rates in all distribution cooperative rate proceedings.³⁷ However, the Attorney General did not provide any evidence or written testimony that the cost studies were incorrect or should not be utilized by the Commission. The Attorney General did not perform a COSS. The only thing the Attorney General can argue is, “the customer charge is too high and do not approve it.” The undisputed evidence in this proceeding is that the fixed costs to serve Farmers’ residential members is \$27.79 per month. 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

Adjustment of Rates Pursuant to Streamlined Procedure Pilot Program Established in Case No. 2018-00407, October 3, 2023 Order (Ky PSC Oct. 3, 2023).

³⁷ See the following briefs filed by the Attorney General that advocates for a customer charge not based upon the cost of service study: Case No. 2025-00103, *Electronic Application of an Alternative Rate Adjustment for Blue Grass Energy Cooperative Corporation Pursuant to 807 KAR 5:078*, Attorney General Comments (filed June 20, 2025); Case No. 2025-00103, *Electronic Application of Cumberland Valley Electric, Inc. for a Rate Adjustment Pursuant to 807 KAR 5:078*, Attorney General Comments (filed June 9, 2025); Case No. 2024-00351, *Electronic Application of Shelby Energy Cooperative, Inc. for a General Adjustment of Rates*, Attorney General’s Brief (filed May 2, 2025); Case No. 2024-00287, *Electronic Application of Big Sandy Rural Electric Cooperative Corporation for a General Adjustment of Rates*, OAG Post-Hearing Brief (filed March 5, 2025); Case No. 2024-00211, *Electronic Application of Licking Valley Rural Electric Cooperative Corporation for a General Adjustment of Rates and Other General Relief*, Post-Hearing Brief of the Attorney General (filed March 14, 2025); and, *Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment of Rates and Other General Relief*, OAG Post-Hearing Brief (filed January 13, 2025).

toward cost-based rates. The COSS took into consideration the intricacies of Farmers' system and produced a just and reasonable cost required to service customers on that system.

Farmers is aware the Commission employs the principal of gradualism. The Attorney General will argue that the customer charge increase will not adhere to the principle of gradualism. Farmers contends the principle of gradualism applies to the entire bill, not any individual billing components. The movement to cost-based rates is also necessary to ensure Farmers has the right alignment of revenue to costs to maintain financial margins.

III. Farmers' Use of 1.85 OTIER Calculation is Reasonable and Should Be Accepted by the Commission.

Farmers based its request for an adjustment of rates on a 1.85 OTIER. As explained in written testimony and at the formal hearing, Farmers experienced a decrease in margins for multiple years leading Farmers to fall below the OTIER and TIER minimums.³⁸ Based on the current financials for 2025, Farmers anticipates it will not meet its OTIER requirement.³⁹

Despite the fact that OTIER is the metric that Farmers must remedy 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.⁴⁰ However, there is no statute, regulation, or precedent that prohibits utilizing OTIER methodology. In fact, the Commission's regulation for distribution cooperative streamline rate adjustments utilizes OTIER.⁴¹ This signals that the Commission understands in some instances OTIER is a better measure for the Cooperative.

³⁸ Responses to the AG's First Request, Item 7.

³⁹ Responses to the AG's First Request, Item 7 and HVT at 9:42:02.

⁴⁰ Meyer Direct Testimony at 7-11.

⁴¹ 807 KAR 5:078, Section 2(4).

The Attorney General first argued OTIER is an inappropriate method of calculating the revenue requirement because it excludes certain income items.⁴² The Attorney General argued the reason a 1.85 OTIER is inappropriate is because it is equivalent to a 2.10 TIER.⁴³ The Attorney General argued the Commission historically authorizes a 2.0 TIER, Farmers should not be rewarded with a 2.10 TIER.⁴⁴ The Attorney General's argument fails to consider several very important things. Farmers provided evidence throughout this proceeding that OTIER is the financial metric it has the concerns with being able to meet. Additionally, as recently as September 2025 the Commission allowed three (3) cooperatives a higher than 2.0 TIER.⁴⁵ Blue Grass Energy Cooperative Corporation was awarded a 1.85 OTIER which is equivalent to 2.12 TIER.⁴⁶ Cumberland Valley Electric, Inc. requested a 1.54 OTIER and was awarded a 1.81 OTIER which is equivalent to a 2.12 TIER.⁴⁷ In Case No. 2025-00159, Meade County Rural Electric Cooperative received a 2.08 TIER based on a 1.85 OTIER.⁴⁸ In Case No. 2023-00147, the Commission awarded Taylor County RECC a 2.0 TIER which resulted in a 1.94 OTIER.⁴⁹ So, the Commission

⁴² Meyer Direct Testimony at 7-11.

⁴³ Meyer Direct Testimony at 7.

⁴⁴ Futral Direct Testimony at 11-12.

⁴⁵ Case No. 2025-00103, *Electronic Application of an Alternative Rate Adjustment for Blue Grass Energy Cooperative Corporation Pursuant to 807 KAR 5:078*, July 21 2025 Order (Ky. PSC July 21, 2025); and, Case No. 2025-00103, *Electronic Application of Cumberland Valley Electric, Inc. for a Rate Adjustment Pursuant to 807 KAR 5:078*, July 10, 2025 Order (Ky. PSC July 10, 2025).

⁴⁶ Case No. 2025-00103, *Electronic Application of an Alternative Rate Adjustment for Blue Grass Energy Cooperative Corporation Pursuant to 807 KAR 5:078*, July 21 2025 Order (Ky. PSC July 21, 2025).

⁴⁷ Case No. 2025-00103, *Electronic Application of Cumberland Valley Electric, Inc. for a Rate Adjustment Pursuant to 807 KAR 5:078*, July 10, 2025 Order (Ky. PSC July 10, 2025).

⁴⁸ Case No. 2025-00159, *Electronic Application of Meade County Rural Electric Cooperative Corporation for an Alternate Rate Adjustment Pursuant to 807 KAR 5:078*, September 26, 2025 Order (Ky. PSC September 26, 2025).

⁴⁹ Case No. 2023-00147, *Electronic Application of Taylor County Rural Electric Cooperative for a General Adjustment of Rates*, Order, (Ky. PSC Apr. 5, 2024).

showed that it understands the difference between TIER and OTIER and is comfortable in certain situations to allow an 1.85 OTIER which results in a higher than 2.0 TIER or to allow a 2.0 TIER where the resulting OTIER is higher than 1.85. The Attorney General will argue this does not matter, because the proceedings that resulted in a 1.85 OTIER were streamline proceedings; however, there is no statute, regulation, or precedent stating that a full rate application cannot be based on OTIER.

The Attorney General completely ignores the fact that Farmers has not met its required OTIER minimums in its loan requirements. The Attorney General argued Farmers does not need an OTIER of 1.85 because it is merely trying to get additional revenue it “does not need.” However, if Farmers is not able to meet its required OTIER, it risks default on its RUS loans. This is an untenable position for a distribution cooperative that many Kentucky residents rely on for electricity. The Attorney General argues a 2.0 TIER would rectify the OTIER shortfall. This approach is flawed; while any rate increase will mitigate the margin shortfall, the best way to rectify Farmers’ failure to achieve minimum OTIER for two of the last three years is to base margins in this rate case on OTIER, not TIER. Changing the method Farmers utilized for determining its revenue requirement to a 2.0 TIER as requested by the Attorney General would cause Farmers to continue to risk default on its loans.

The margins for distribution cooperatives are so small that, if Farmers is not authorized to **attempt** to recover revenue based on a 1.85 OTIER, it will continue to fall short of its loan covenants. Additionally, the small margins do not allow Farmers to account for contingencies that arise. The main example of these contingencies is storm damage. Some storm events can be reimbursed by Federal Emergency Management Association (“FEMA”), reimbursement that does

not happen until a year or more after the event,⁵⁰ but there are still many costs that will not be covered by a potential FEMA reimbursement or insurance.⁵¹ Without the additional margins from a 1.85 OTIER, Farmers will not be able to recover from the tornado or any other unforeseen situations.

CONCLUSION

Farmers' 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. Farmers 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 8th day of October 2025.

⁵⁰ HVT at 9:25:01.

⁵¹ HVT at 9:32:15.

Respectfully submitted,

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CERTIFICATE OF SERVICE

This is to certify that the electronic filing was transmitted to the Commission on October 8, 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.

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