COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

REBUTTAL TESTIMONY OF JENNIE GIBSON PHLEPS,

VICE-PRESIDENT, FINANCE AND ACCOUNTING

ON BEHALF OF FARMERS RURAL

ELECTRIC COOPERATIVE CORPORATION

Filed: September 10, 2025

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

A. My name is Jennie Gibson Phelps. My business address is Farmers Rural Electric Cooperative Corporation ("Farmers"), 504 South Broadway, P.O. Box 1298, Glasgow, Kentucky 42142-1298. I am Vice President, Finance and Accounting at Farmers.

Q. ARE YOU THE SAME INDIVIDUAL THAT SPONSORED DIRECT TESTIMONY IN THIS CASE?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to respond to the Direct Testimony of Greg R. Meyer ("Meyer Direct") on behalf of the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("Attorney General").

Q. IN THE MEYER DIRECT, HE CRITICIZES THE USE OF OPERATING TIMES INTERST EARNED RATION ("OTIER"). EXPLAIN WHY FARMERS BASED ITS RATE ADJUSTMENT ON OTIER RATHER THAN TIMES INTEREST EARNED RATIO ("TIER")?

A. Farmers is required to meet all debt covenants, not some of them. In my over 15 years at the Cooperative, Farmers has always met its 2-of 3-year average 1.25 TIER lender requirement. However, the same cannot be said for 1.10 OTIER lender requirement.

Mr. Meyer acknowledges, but fails to consider, that Farmers' debt covenants with its lenders include requirements for both TIER and OTIER. This means that satisfying OTIER is not optional. OTIER is a better indicator of Farmers' financial health than TIER. OTIER provides a more stringent and targeted measure of profitability derived specifically from core operations. A low ratio indicates that the cooperative is losing money on its electric operations. Since Farmers often has concerns with meeting its required OTIER metrics, that is why it was selected as the basis of the Application, not for the purpose of excluding other revenue.

Q. IF THE COMMISSION AUTHORIZED A 1.85 OTIER DOES THAT MEAN FARMERS AUTOMATICALLY COLLECTS REVENUE SUFFICENT TO MEET THAT REQUIREMENT?

A. No. The Commission's authorization of a 1.85 OTIER, or a 2.0 TIER, does not mean Farmers will automatically receive that much revenue. The authorization is the opportunity to earn that revenue. At Farmers, like most other cooperatives, sales are mostly driven by weather. Often a distribution cooperative's revenue is not as expected because milder weather drives down energy sales. This is on top of unexpected expenses, such as storm damage, that are not budgeted for each year. This is why it is imperative that Farmers receives a 1.85 OTIER so that it can maintain sufficient margins to not fall short of lender requirements.

Q. IN THE MEYER DIRECT TESTIMONY, HE NOTES, "*…in the Direct Testimony of Farmers' witness Jennie Gibson Phelps, Farmers' loan contract with Rural Utilities Service ("RUS") states the average coverage ratio by the Borrow in the 2 best years out of the 3 most recent calendar years must be not less than OTIER = 1.0.*" WHAT IS THE CORRECT OTIER REQUIREMENT?

A. The OTIER requirement by RUS is a 1.10 OTIER average in the 2 best years out of 3 most recent years. Farmers acknowledges the 1.10 typo pointed out by Mr. Meyer. However, upon further review, considering all documents that have been filed in this proceeding, there have been other references to a 1.10 OTIER.

Q. MR MEYER SUGGESTS REDUCING FARMERS' MARGINS BY AN ADDITIONAL $300,623 TO DISINCENTIVIZE DONATIONS AND DUES. DO YOU AGREE WITH THIS PROPOSAL?

A. No.

Q WHY DO YOU NOT AGREE WITH MR. MEYER'S PROPOSAL?

A. First, Farmers removed the $300,623 from the revenue requirement that was for donations, dues, and promotional advertising. This is consistent with Commission precedent and, the Commission has never requested, ordered, or hinted that electric distribution cooperatives should not incur these types of costs. Mr. Meyer's proposal also shows a fundamental misunderstanding of the cooperative principals.

Farmers is a member of the National Rural Electric Cooperatives Association ("NRECA"). This membership requires Farmers to abide by the Seven Cooperative Principles.[1] 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.

Also, Farmers is a member of the Kentucky Electric Cooperatives ("KEC"). As stated in PSC First Data Request, Response 1, Farmers requires annual safety training for its employees. Farmers utilizes the training program from KEC. This training is covered

[1] Rebuttal Testimony of John Wolfram, Exhibit JW-1 (filed September 10, 2025).

under the annual KEC dues, which minimizes the costs for Farmers to secure the same training elsewhere.

Moreover, the costs identified by Mr. Meyer include certain expenses for Farmers Annual Meeting. This meeting, required by cooperative by-laws, serves as a key platform for transparency and member engagement, allowing members to stay informed about the cooperative business. As evidenced in PSC First Data Request, Response 49, Farmers has already taken steps to reduce annual meeting expenses over the past six years by 55.6%, demonstrating a commitment to fiscal responsibility.

Finally, the advertising component is the materials Farmers provides to its members. This includes *Kentucky Living* magazine and any other materials Farmers distributes. There is no reason to disincentivize Farmers from communicating with its members.

Q. DID FAMERS ADJUST ITS KENTUCKY LIVING PROFORM EXPESNE?

A. No. The proforma adjustment include the full cost of the Kentucky Living magazine. Included in the Kentucky Living expense is information that is deemed to be Energy Efficiency, Safety Related or a required Fuel Adjustment Clause Notification. When looking at all 2024 Kentucky Living magazines distributed to Farmers' members, 56 pages of the 748 total magazine pages had one of the above referenced items included. This equates to 7.49% of all Kentucky Living pages for 2024 having an Energy Efficiency, Safety Related, or required Fuel Adjustment Clause Notification. When applied to the total Kentucky Living Expense for 2024 of $136,446, this calculates to $10,215 of allowable expenses that could have been included in the revenue requirement.

Q. MR. MEYER PROPOSES A $5,683 ADJUSTMENT FOR FARMERS OVERTIME. SHOULD THIS ADJUSTMENT BE ACCEPTED?

A. No. Mr. Myer states, "there was no analysis provided to show that either the current rate of overtime booked in the test year was appropriate or that the amount of overtime in the test year would be on-going or would match the planned activity levels in the years to come.[2]" The pro forma adjustment for overtime is based on 8,663 hours or $484,917. From January 1, 2025, to August 31, 2025, overtime totaled 6,605 hours or $369,862. Given this trajectory, Farmers will exceed its pro forma overtime calculation. Furthermore, this pro forma adjustment follows the format as in other approved distribution rate cases.

Q. IN THE MEYER DIRECT TESTIMONY, HE STATES THAT "CERTAIN EMPLOYEES OF FARMERS MUST BE DOING SUPPORT WORK FOR FEPP". IS THIS ACCURATE?

A. No. While FEPP is a wholly owned subsidiary of Farmers, Farmers is not involved in the day-to-day operations of FEPP. Mr. Meyer's opinion is subjective, arbitrary, and has no factual basis. As stated in responses to requests for information there are only two employees of Farmers associated with the subsidiary: the President/CEO and the Vice President, Finance & Accounting.[3] Specifically, my role, along with the role of Mr. Moss, is to serve as a FEPP Board member and therefore provide governance and oversight, rather than manage daily operations. Within FEPP, the Chief Operating Officer ("COO") supervises the management of FEPP and oversees the propane purchases. The District Manager oversees the day-to-day operations and schedules his own meetings. With

[2] Direct Testimony of Greg R. Meyer at 20 (filed August 4, 2025).

[3] Farmers Response to the Attorney General's Second Request for Information, Item 2 and Item 4 (filed July 16, 2025).

oversight from the District Manager, the Customer Service Reps ("CSR") process bills to customer and pay invoices to vendors. Payroll and general accounting are outsourced to an independent certified professional accounting firm, in which the cost is recorded on FEPP's general ledger.

Q. MR. MEYER PROPOSES A $38,639 ADJUSTMENT FOR FARMERS EMPLOYEES PROVIDING SERVICE TO FEPP. SHOULD THIS ADJUSTMENT BE ACCEPTED?

A. No. The proposal of a "total 5% of the Farmers' management/administrative team salaries be assigned to FEPP and Farmers Rural Connect Inc." is subjective, arbitrary, and has no factual basis. Mr. Myer has provided no explanation as to how he arrived at the 5% total. Furthermore, Farmers, as has already been rescinded by Mr. Meyer, is not associated with Farmers Rural Connect Inc. and therefore, should not assign an allocation of salaries to an organization that is irrelevant. As stated previously, my role, the Mr. Moss' role, is a board member. Not as an employee. I provide the same services to the Board of FEPP that the Board members of Farmers' RECC provide.

Q. COULD YOU PROVIDE INSIGHT INTO STORM RELATED EXPENSES AND REIMBURSEMENT?

A. In recent years, Farmers has faced several major storms. In the first 11 years of my career, there were no significant events that qualified for FEMA reimbursement. Since December 2021, Farmers has requested FEMA assistance for four eligible storms, including one storm during the 2024 test year. While these FEMA emergency-related expenses should eventually be reimbursed, the reimbursement process is very lengthy and only covers 87% of the actual costs. In the meantime, Farmers is responsible for carrying 100% of those costs upfront, further straining financial resources. When Farmers lacks sufficient cash reserves, the Cooperative must rely on short-term borrowing to cover these costs.

Then, there are the severe storms that are not covered by FEMA. The largest example was in June 25, 2023, when severe storms and high winds swept across Farmers' system. The Commonwealth did not reach its threshold to declare the storm as a FEMA event. Therefore, the storm cost, totaling $911,205, was a direct cost for Farmers and its members. This event was a direct, negative impact to the income statement and therefore resulted in a reduced OTIER.

Q. WILL YOU PROVIDE DETAILS ON FARMERS 2025 FINANCIALS?

A. The financial challenges for Farmers continue into fiscal year 2025. As of July 31, 2025, operating margins totaled $57,636, a $606,653 decline from the same period in 2024. OTIER for this seven-month period is 1.04, which is below the OTIER lender requirement of 1.10. Following a poor performance in the first quarter of 2025, Farmers made certain budget reductions to lessen 2025 expenses. The largest decrease was to Farmers' right-of-way ("ROW") program, pushing several 2025 circuit bids to 2026. Further reductions were made in the second quarter which halted the right-of-way circuit program. Due to budgetary restraints, in total, Farmers will only trim 175 miles of right-of-way in 2025. When margins are low and debt requirements cannot be met, the unfortunate reality is ROW is the largest controllable expense that can be stopped. However, this is not sustainable long-term. Farmers must trim ROW in order to provide safe and reliable service to our members. If Farmers is not awarded the requested increase and a 1.85 OTIER, Farmers will continue to fall further and further behind on ROW. If that occurs the members will suffer.

Q. MR. MEYER PROPOSES A $393,820 ADJUSTMENT FOR RIGHT OF WAY ("ROW") EXPENSES. SHOULD THIS ADJUSTMENT BE ACCEPTED?

A. No. The proposed adjustment of approximately $2.5 million in ROW expenses is based on actual costs received in our 2025-2026 circuit bid packet. The costs for vegetative management continue to rise. The lack of additional funding will cause Farmers to fall further and further behind, ultimately harming the members and compromising safety and reliability.

Q. PLEASE EXPLAIN WHY THE COMMISSION SHOULD GRANT THE RELIEF REQUESTED BY FARMERS IN THIS PROCEEDING.

A. As discussed throughout this filing, the rate relief sought by Farmers in this case is crucial to maintain its financial ability to operate and to provide its members with reliable power at a reasonable retail cost. The requested rate increase was specifically designed to account for Farmers' cost of service to the various member classes it serves. In the past few years, the costs of right-of-way clearing and essential tools and materials increased tremendously to such a degree that Farmers' Board of Directors and management realized the need to request a general adjustment in rates. The rates requested in this case are derived from the results of Mr. Wolfram's comprehensive COSS and are reasonable and necessary for the provision of safe and reliable service at fair, just and reasonable rates.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.