

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 reply brief in support of its position hereby states as follows:

INTRODUCTION

Farmers and the Attorney General, by and through the Office of Rate Intervention (“Attorney General”) filed simultaneous briefs on October 8, 2025 setting forth their positions in this matter. As stated in Farmers’ brief, 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 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.

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

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.

ARGUMENT IN RESPONSE

At the outset the Attorney General fails to acknowledge at any point in this case that distribution cooperatives are not for profit.² Farmers does not have any reason to request a higher revenue requirement or utilize one method for determining the revenue requirement over another. Farmers is owned by the members it serves. Farmers does not have any investors that require a return on their investment into the corporation and therefore Farmers has no incentives to request higher rates than are needed to run the cooperative. The revenue requirement requested by Farmers is simply the amount needed to meet its OTIER minimums in its debt covenants and to continue to provide safe and reliable electric service to its members.

Farmers' required metrics it must maintain are a TIER of 1.25 and an OTIER of 1.10 for the best two out of three years.³ Farmers OTIER for 2022 was 1.01. In 2023, the OTIER was 0.35. In 2024, the OTIER was 1.14. This means Farmers did not meet its required OTIER minimums for the best two of three years. The Attorney General completely failed to acknowledge this fact.⁴

² See OAG Post-Hearing Brief (filed October 8, 2025) and Rebuttal Testimony of John Wolfram (filed September 10, 2025).

³ Farmers Response to Commission Staff's First Request for Information, Item 54 (filed May 19, 2025).

⁴ See OAG Final Brief.

If Farmers does not rectify this situation and drastically improve its OTIER, it will default on its RUS loans. This is an unimaginable consequence for a distribution cooperative. The Commission should allow the revenue increase request of \$2,365,822. This amount is necessary to allow Farmers the potential, but not guaranteed, OTIER of 1.85. This will result in fair, just and reasonable rates and ensure that Farmers will not continue to fall short of its debt covenants.

Farmers is the only party in this proceeding that performed a comprehensive COSS. This unrefuted COSS supported a residential customer charge of \$27.79.⁵ The Attorney General's claims that the customer charge is too high and not based on the principal of gradualism are based purely on speculation and are not founded on any evidence.⁶ Based on the results of the COSS, Farmers proposed to increase the current customer charge of \$18.12 to \$27.79 and decrease the energy charge from \$0.100666 to \$0.99057.⁷

Farmers presented evidence regarding the decision to distribute the required rate increase more heavily in the customer charge, as opposed to the energy charge. This is consistent with the COSS and it creates a lower negative impact to economically vulnerable members. The Attorney General's brief completely ignored the quantitative analysis performed by Farmers regarding the impact to low income customers. It is clear 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. Allowing Farmers to recover more of its fixed costs through the customer charge will decrease some of the uncertainty and unpredictability that a

⁵ Application, Exhibit 10, Direct Testimony of John Wolfram at 21.

⁶ OAG Final Brief at 3-4.

⁷ Application, Exhibit 10, Direct Testimony of John Wolfram at 24.

distribution cooperative faces in its revenue stream. This will also allow Farmers to start earning enough revenue to potentially meet its allowed OTIER.

As stated in the initial brief, Farmers noted the Attorney General's continued argument against a movement toward cost-based rates in all distribution cooperative rate proceedings.⁸ As expected in the Attorney General's brief, there is no evidence Farmers' COSS is incorrect.⁹ The undisputed evidence in this proceeding is that the fixed costs to serve Farmers' residential members is \$27.79 per month. Aside from its argument against cost-based rates, the Attorney General additionally argues in this proceeding that because Farmers had a rate increase in 2023 it should somehow not be awarded the requested customer charge in this proceeding.¹⁰ The Attorney General is misunderstanding the problem. The problem is because Farmers' residential rates are so far below the cost to serve the members, Farmers will never meet its required financial metrics without an increase in rates. It can be assumed, if the Commission does not move to cost-based rates in the proceedings, Farmers' will be required to file for another increase of rates sooner rather than later.

The Attorney General argued Farmers' request for an adjustment of rates on a 1.85 OTIER is incorrect.¹¹ However, the Attorney General has not provided any relevant case law, regulations, or statutes stating it is incorrect to use OTIER instead of TIER for a rate adjustment.¹² The Attorney General states it is established precedent for a 2.0 TIER and Farmers has not shown any

⁸ South Kentucky's Post-Hearing Brief at 9.

⁹ OAG Final Brief at 3-4.

¹⁰ OAG Final Brief at 3.

¹¹ OAG Final Brief at 4-6.

¹² OAG Final Brief at 4-6.

reason to depart from precedent.¹³ As explain in written testimony, the formal hearing, and its brief, Farmers most often cannot meet its OTIER loan metrics. 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.¹⁴

The Attorney General stated that even the approval of a 2.0 TIER, does not guarantee Farmers will earn a 2.0 TIER.¹⁵ What the Attorney General's argument fails to acknowledge, is that Farmers' rates are currently set so that it may attempt to achieve a 2.0 TIER; however, Farmers has failed to achieve anything close to a 2.0 TIER since its last rate proceeding.¹⁶ The Attorney General also does not even acknowledge that Farmers is continually failing to meet its OTIER requirement, so it is nonsensical to set its revenue requirement based upon a metric it can meet instead of the financial metric it cannot meet.

The Commission should not accept any of the adjustments the Attorney General made to Farmers' revenue requirement. The evidence in the record supports all of the adjustments that were made by Farmers. However, the Attorney General's position regarding Farmers' subsidiary, Farmers Energy Propane Plus ("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"),¹⁷ various responses to requests for information providing actual

¹³ OAG Final Brief at 6.

¹⁴ OAG Final Brief at 4-6.

¹⁵ OAG Final Brief at 6.

¹⁶ Farmer's Response to the Attorney General's First Request for Information, Item 7.

¹⁷ Farmers Response to the AG's Second Request, Item 3.

data,¹⁸ rebuttal testimony,¹⁹ and hearing testimony.²⁰ 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.

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 16th day of October 2025.

¹⁸ 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.

¹⁹ Phelps Rebuttal Testimony at 6-8.

²⁰ HVT at 9:47:46.

Respectfully submitted,

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CERTIFICATE OF SERVICE

This is to certify that the electronic filing was transmitted to the Commission on October 16, 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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