

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION FOR AN)	
ALTERNATIVE ADJUSTMENT OF RATES)	CASE NO.
FOR MEADE COUNTY RURAL ELECTRIC)	2025-00159
COOPERATIVE CORPORATION PURSUANT)	
TO 807 KAR 5:078)	

**MEADE COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION’S
COMMENTS IN SUPPORT OF APPLICATION**

Comes now Meade County Rural Electric Cooperative Corporation (“Meade County RECC”), by counsel, pursuant to the Commission’s July 29, 2025 Order, and in further support of its Application requesting a general adjustment of its existing rates, respectfully offers the following comments:

Meade County RECC is a not-for-profit, member-owned, rural electric distribution cooperative organized under KRS Chapter 279 that provides retail electric service to approximately 31,657 metered accounts in the Kentucky counties of Breckinridge, Grayson, Hancock, Hardin, Meade, and Ohio.¹ Approximately seventy-seven (77) percent of Meade County RECC’s total energy usage is consumed by residential members.² Using a historical, twelve-month test period ending on December 31, 2024, Meade County RECC seeks approval to increase

¹ Application at 1 (filed July 15, 2025).

² Application, Exhibit 32, Direct Testimony of Anna Swanson (“Swanson Direct Testimony”) at 5.

its annual revenues by \$1,750,780, or 2.06%, to achieve an Operating Times Interest Earned Ratio (“OTIER”) of 1.85.³

Meade County RECC is proposing to increase the residential class customer charge from \$0.686 per day to \$0.850 per day and no change to the energy charge.⁴ This would result in a \$4.99, or 3.68%, increase to the average residential user.⁵ Meade County RECC is also proposing to increase the monthly customer charge in Rate 2 – Commercial from \$0.816 per day to \$0.890 per day and a decrease to the energy charge from \$0.104294 to \$0.102400.⁶ Meade County RECC did not propose any other changes to other rate classes. Each of these rate design proposals is consistent with the Cost-of-Service Study (“COSS”) prepared by Mr. John Wolfram.⁷

Meade County RECC filed its last general rate case in 2020, with rates effective in September 2020.⁸ Since that time the Cooperative’s margins have continually declined. Interest rates have also increased sharply in the last several years.⁹ Also, a significant impact of the COVID-19 pandemic on Meade County RECC 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. Meade County RECC has been able to offset many of these costs and delay a base rate increase through prudent management practices,

³ Application at 2.

⁴ Application, Exhibit 6.

⁵ Application, Exhibit 6.

⁶ Application, Exhibit 6.

⁷ Application, Exhibit 33, Direct Testimony of John Wolfram, Exhibit JW-3 through JW-8 (“Wolfram Direct Testimony”).

⁸ Case No. 2020-00131, *Electronic Application of Meade County Rural Electric Cooperative Corporation for an Adjustment of Rates*, September 16, 2020 Order (Ky. PSC. Sept. 16, 2020).

⁹ See generally, Application, Exhibit 31, Direct Testimony of Martin Littrel (“Littrel Direct Testimony”).

however, Meade County RECC's financial metrics are below what is necessary to continue to provide safe and reliable service.

Despite the increasing inflationary pressures and rising costs, Meade County RECC continues to focus on lowering or controlling expenses. Meade County RECC has created strategies to monitor inventory levels, fleet maintenance, and vegetation strategies to keep costs low.¹⁰ These efforts have lead Meade County RECC to have lower Operation and Maintenance ("O&M") expenses than most other cooperatives in the Commonwealth.¹¹ Meade County RECC has adopted a fleet management program that has resulted in significant savings.¹² Meade County RECC is also pursuing different strategies to contain the rising costs of vegetative management.¹³ Despite these cost containment measures, Meade County RECC cannot continue to reduce its costs and still provide safe and reliable service.

While Meade County RECC has had several cost-saving initiatives since its last general rate increase, its financial metrics have generally deteriorated. In 2024, Meade County RECC's OTIER was 1.07¹⁴; and, through July 2025 it was 0.43.¹⁵ The requested OTIER in this rate application will allow Meade County RECC to operate in a healthy manner and meet financial covenants in future years.

¹⁰ Littrel Direct Testimony at 8-9.

¹¹ Littrel Direct Testimony at 8-9.

¹² Littrel Direct Testimony at 9-10.

¹³ Littrel Direct Testimony at 10-11.

¹⁴ Meade County RECC's Response to the Attorney General's First Request, Item 5(h).

¹⁵ Meade County RECC's Response to the Attorney General's First Request, Item 5(h).

Consistent with the Commission's streamlined rate adjustment regulations, and general ratemaking principles, Meade County RECC made adjustments to the test year expense to account for: the fuel adjustment clause, the environmental surcharge, member rate stability mechanism, non-smelter non-FAC PPA, rate case expense, year-end customer normalization, depreciation expense normalization, advertising and donations, Director's expenses, life insurance premiums, retirement plan contributions, health/dental/vision insurance premiums, wages and salaries, and interest expense.¹⁶

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.¹⁷ Mr. Wolfram's detailed analysis demonstrated that Meade County RECC 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 members; and (2) the COSS supports a fixed monthly customer charge of \$35.06 for residential members while the current charge is only \$20.87.¹⁸ To account for this under recovery, Meade County RECC proposed to increase the customer charge for residential members that will result in a 3.68% increase for that class.¹⁹ The proposed increase to residential rates amounts to a gradual change that eliminates subsidization of

¹⁶ Wolfram Direct Testimony at 9-14.

¹⁷ Wolfram Direct Testimony at 15-19.

¹⁸ Wolfram Direct Testimony at 22.

¹⁹ Wolfram Direct Testimony at 22-23.

residential rate class by the other rate classes. This is not only gradual, but it also results in fair, just, and reasonable rates.

A significant factor in revenue for distribution cooperatives is moderate temperatures that yield lower-than-expected residential demand. To mitigate the volatility of temperatures, Meade County RECC 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. Meade County RECC believes this will allow Meade County RECC to experience less volatility in its revenues and for its members to experience less volatility in their monthly bills.

The evidence in this proceeding is that the fixed costs to serve Meade County RECC's members is \$35.06. 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 intricacies of Meade County RECC's system and produced a just and reasonable cost required to service members on that system.

As previously mentioned, increasing labor costs are a significant contributor to the need for a rate adjustment. Meade County RECC operates in a competitive labor market and given the location of Meade County RECC, 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 attract and retain quality employees to serve Meade County RECC's members.

Throughout the discovery process, the Attorney General requested information on Meade County RECC's salary and benefits. Meade County RECC believes that its salary and benefits are reasonable and comparable when considering the wage and salary survey provided,²⁰ which considers its location near the state's major metropolitan areas. Meade County RECC responded to these issues in more detail in responses to the Attorney General's requests for information.²¹ Meade County RECC 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 Meade County RECC's revenue requirement in the current rate application does not include a proforma adjustment for right-of-way expense, these expenses contribute significantly to Meade County RECC's expenses. Meade County RECC 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 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.

Meade County RECC pays membership dues for inclusion in various associated organizations such as NRECA and the Kentucky Electric Cooperatives. These peer groups provide

²⁰ Meade County RECC's Responses to Commission Staff's First Request for Information, Item 4 and Item 6 (filed August 29, 2025).

²¹ Meade County RECC's Responses to the Attorney General's First Request for Information, Items 7, 9, and 10.

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 Meade County RECC to follow and achieve the purposes of this principle. While there are a number of benefits to Meade County RECC 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, Meade County RECC 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.

Meade County RECC is mindful of the timing of its rate case filing and of the fact that no increase is ever welcomed by members. Taking this into consideration, Meade County RECC's management has worked diligently to mitigate costs wherever possible and has been able to avoid a rate increase to its members during the unprecedented inflation during the last five years. However, as the Commission has opined regularly, a cooperative has a duty to safeguard its financial integrity for the benefit of its members.²² Meade County RECC is requesting a very

²² 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).

moderate increase in revenue of \$1,750,780. This amount will allow Meade County RECC to maintain its financial metrics so it can provide safe and reliable service for its members.

In summary, Meade County RECC's proposal is fair, just, and reasonable both regarding the amount of the revenue request and the rate design. Meade County RECC 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, Meade County RECC respectfully requests the Commission to approve its Application and authorize the new rates.

This the 9th day of September, 2025.

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 Meade County Rural
Cooperative Corporation*

CERTIFICATE OF SERVICE

This is to certify that the electronic filing was transmitted to the Commission on September 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 Meade County Rural
Cooperative Corporation*