

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF SHELBY)	
ENERGY COOPERATIVE, INC. FOR A GENERAL)	CASE NO.
ADJUSTMENT OF RATES PURSUANT TO)	2023-00213
STREAMLINED PROCEDURE PILOT PROGRAM)	
ESTABLISHED IN CASE NO. 2018-00407)	

ORDER

On November 6, 2023, Shelby Energy Cooperative, Inc. (Shelby Energy) filed a motion, pursuant to KRS 278.400, requesting reconsideration of the Order entered October 17, 2023, regarding its application for a general adjustment of rates pursuant to the amended “streamlined procedure” established in Case No. 2018-00407.¹ On November 22, 2023, the Commission granted rehearing on the following issues: (1) interest expense; (2) material errors in calculation of the interest expense; and (3) adjustments made to the medical insurance premiums of all employees to Bureau of Labor Statistics (BLS) levels with regard to union employees. The Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General), is the only intervenor in the case.² On December 13, 2023, the Commission issued a post-hearing procedural schedule. Shelby Energy responded to one additional

¹ Case No. 2018-00407, *A Review of the Rate Case Procedure for Electric Distribution Cooperatives* (Ky. PSC Dec. 20, 2019).

² Order (Ky. PSC Aug. 17, 2023).

request for information from Commission Staff.³ Shelby Energy and the Attorney General filed motions to submit the case for decision based on the written record without a hearing.⁴ On Feb. 16, 2024, Shelby Energy filed a Notice to Implement Rates; however, on March 15, 2024, the Commission issued an Order finding Shelby Energy's Notice deficient but allowing Shelby Energy to put the rates set out in the final Order in this matter into effect. As of the date of this Order, Shelby Energy has not updated its tariff and made no further findings. This matter now stands submitted for a decision.

LEGAL STANDARD

KRS 278.400, which establishes the standard of review for motions for rehearing, limits rehearing to new evidence not readily discoverable at the time of the original hearings, to correct any material errors or omissions, or to correct findings that are unreasonable or unlawful. A Commission Order is deemed unreasonable only when "the evidence presented leaves no room for difference of opinion among reasonable minds."⁵ An order can only be unlawful if it violates a state or federal statute or constitutional provision.⁶

By limiting rehearing to correct material errors or omissions, and findings that are unreasonable or unlawful, or to weigh new evidence not readily discoverable at the time of the original hearings, KRS 278.400 is intended to provide closure to Commission

³ Shelby Energy's Response to Commission Staff's First Rehearing Request for Information (filed Jan. 5, 2024).

⁴ Shelby Energy's Request to Submit the Case on the Record (filed Jan. 22, 2024); Attorney General's Motion to Submit Case on the Record (filed Jan. 24, 2024).

⁵ *Energy Regulatory Comm'n v. Kentucky Power Co.*, 605 S.W.2d 46 (Ky. App. 1980).

⁶ *Public Service Comm'n v. Conway*, 324 S.W.3d 373, 377 (Ky. 2010); *Public Service Comm'n v. Jackson County Rural Elec. Coop. Corp.*, 50 S.W.3d 764, 766 (Ky. App. 2000); *National Southwire Aluminum Co. v. Big Rivers Elec. Corp.*, 785 S.W.2d 503, 509 (Ky. App. 1990).

proceedings. Rehearing does not present parties with the opportunity to relitigate a matter fully addressed in the original Order.

DISCUSSION AND FINDINGS

The Commission's November 22, 2023 Order granted rehearing to (1) further develop the record regarding the appropriate amount of interest expense, (2) examine the issue of material errors in calculation of the interest expense and (3) evaluate the adjustments made to the medical insurance premiums of all employees to BLS levels because the adjustment included union employees, who pay at least 12 percent of their insurance premiums. The discussion and findings on each issue is outlined below.

Interest Expense

In its application, Shelby Energy proposed to increase to test-year interest expense of \$2,174,957 by \$398,879, for a total test-year expense of \$2,573,836.⁷ In the final Order, the Commission found that only the December 31, 2022 ending balance and the 2023 rate for consumer deposits should be reflected in the interest expense adjustment, for a total increase of \$91,369 or \$307,510 less than Shelby Energy's proposed adjustment.⁸

Shelby Energy requested rehearing to challenge the exclusion of what it alleged to be known and measurable changes in interest expense, specifically interest on two advances from Rural Utility Service (RUS) of long-term debt from May 2023 through August 2023, short-term lines of credit from 2023, and consumer deposits. Shelby Energy argued that the Commission's reason for disallowing the alleged known and

⁷ Application, Wolfram Direct Testimony, Exhibit JW-2 at 12.

⁸ Final Order (Ky. PSC Oct. 17, 2023) at 9.

measurable changes to interest expense was because they “were determined well after the end of the test-year and should not be included.” In support of its contention, Shelby Energy cited to a case where the Commission had allowed long-term RUS debt to be recovered even though it occurred outside the test year.⁹

The Commission finds portions of Shelby Energy’s argument persuasive; however, the Commission finds that the adjustment should be limited to a normalized interest expense reflecting known and measurable amounts in addition to the test year. This will reduce the adjustment to interest expense from \$307,510, as stated in the final Order, to \$87,943, an expense increase of \$219,568. This adjustment normalizes the interest expense based on the 2022 ending balance, with the addition of the 2023 RUS loans and the exclusion of the line of credit that was paid off from the August RUS loan. This adjustment strikes a balance between known and measurable changes and matching consistent time periods for the test year.

Material Errors in Calculations

Shelby Energy requested rehearing on what it characterized as material errors in the calculation of the interest expense that were excluded from Shelby Energy’s rates, only if the request for rehearing on the interest expense adjustment was denied. The Commission finds that the adjustment discussed above addresses the alleged errors in the interest expense calculation, thus rendering this request moot.

⁹ Case No. 2021-00358, *Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment of Rates and Other General Relief* (Ky. PSC Apr. 8, 2022).

Insurance Premium Adjustments

In the final Order, the Commission made an adjustment to reflect a reasonable level of employee contribution to health insurance premiums.¹⁰ Shelby Energy requested rehearing challenging those adjustments based on the argument that its union employees pay at least 12 percent of their medical premiums, and that prior Commission precedent¹¹ indicated that an adjustment is only required if employee health care insurance premium contributions are zero.¹² Rehearing was granted only for the portion of the adjustment that included union employees. The Commission has historically avoided adjustments to collective bargaining agreements. Therefore, the Commission finds that the adjustment for health insurance premiums should be reduced to remove the portion of the adjustment related to union employees. This will reduce the adjustment from \$123,399 to \$66,095, an expense increase of \$57,305.¹³

Revenue Requirement Summary

The effects of the above adjustments on Shelby Energy's net income results in utility operating margins of \$1,499,345 based upon total revenues of \$45,686,975, a total cost of electric service of \$44,187,630, and resulting net margins of \$2,445,565. The resulting credit metrics are a 2.0 Times Interest Earned Ratio, a 1.63 Operating Times Interest Earned Ratio, and a debt service coverage ratio of 1.77, all of which will give Shelby Energy a reasonable margin to achieve its debt covenants.

¹⁰ Final Order (Ky. PSC Oct. 17, 2023) at 10.

¹¹ Case No. 2018-00407, Dec. 20, 2019 Order, Appendix A, Item E. 2.

¹² Case No. 2018-00407, Dec. 20, 2019 Order.

¹³ Shelby Energy's Response to Commission Staff's First Request for Information (filed Sept. 12, 2023), Item 9.

IT IS THEREFORE ORDERED that:

1. Shelby Energy's motion for reconsideration of interest expense is granted as modified.

2. Shelby Energy's motion for reconsideration of material errors in the calculation of the interest expense is denied as moot.

3. Shelby Energy's motion for reconsideration of adjustments made to the medical insurance premiums of all employees to BLS levels to exempt union employees is granted.

4. The remainder of the October 17, 2023 Order and November 22, 2023 Order, not in conflict with this Order remains in effect.

5. The rates set forth in Appendix B to this Order are approved for services rendered by Shelby Energy on and after the date of service of this Order.

6. Within 20 days of the date of service of this Order, Shelby Energy shall file with the Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and reflecting its effective data and that it was authorized by this Order.

7. This case is closed and removed from the Commission's docket.

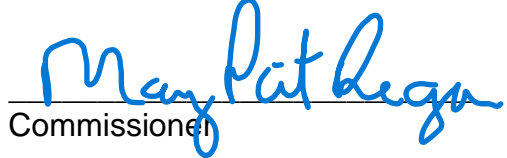
PUBLIC SERVICE COMMISSION



Chairman



Commissioner



Commissioner

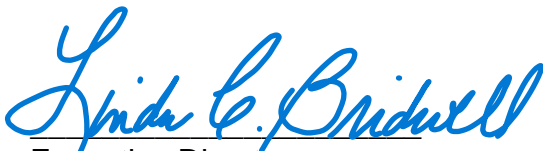
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SEP 18 2024

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KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00213 DATED SEP 18 2024

Description	Actual Rates Actual Test Yr	Final Order Pro Forma Adjustments	Final Order Present Rates Adjusted TY	Final Order Increase	Final Order Final Rates Adjusted TY	Rehearing Adjustments	Rehearing Final Rates Adjusted TY
<u>Operating Revenues</u>							
Total Sales of Electric Energy	54,540,957	(11,455,668)	43,085,289	1,174,574	44,259,863	497,181	44,757,044
Other Electric Revenue	929,931	-	929,931		929,931		929,931
Total Operating Revenue	55,470,888	(11,455,668)	44,015,220	1,174,574	45,189,794	497,181	45,686,975
<u>Operating Expenses:</u>							
Purchased Power	41,971,379	(11,543,339)	30,428,040		30,428,040		30,428,040
Distribution Operations	2,121,113	-	2,121,113		2,121,113		2,121,113
Distribution Maintenance	2,939,839	440,429	3,380,268		3,380,268		3,380,268
Customer Accounts	544,325	-	544,325		544,325		544,325
Customer Service	358,126	-	358,126		358,126		358,126
Sales Expense	699	-	699		699		699
A&G	990,815	(329,070)	661,745		661,745	57,305	719,049
Total O&M Expense	48,926,296	(11,431,981)	37,494,315	-	37,494,315	57,305	37,551,620
Depreciation	3,919,633	144,171	4,063,804		4,063,804		4,063,804
Taxes - Other	44,865	-	44,865	1,751	46,616	741	47,357
Interest on LTD	2,134,628	91,369	2,225,997		2,225,997	219,568	2,445,565
Interest - Other	23,555	-	23,555		23,555		23,555
Other Deductions	55,730	-	55,730		55,730		55,730
Total Cost of Electric Service	55,104,707	(11,196,441)	43,908,266	1,751	43,910,017	277,613	44,187,630
Utility Operating Margins	366,181	(259,227)	106,954	1,172,823	1,279,777	219,568	1,499,345
Non-Operating Margins - Interest	41,665	-	41,665		41,665		41,665
Income(Loss) from Equity Investments	814,478	-	814,478		814,478		814,478
Non-Operating Margins - Other	(83,748)	-	(83,748)		(83,748)		(83,748)
G&T Capital Credits	1,395,150	(1,395,150)	-		-		-
Other Capital Credits	173,825	-	173,825		173,825		173,825
Net Margins	2,707,551	(1,654,377)	1,053,174	1,172,823	2,225,997	219,568	2,445,565
Cash Receipts from Lenders	34,768		34,768		34,768		34,768
OTIER	1.19		1.06		1.59		1.63
TIER	2.27		1.47		2.00		2.00
TIER excluding GTCC	1.61		1.47		2.00		2.00
Target TIER	2.00		2.00		2.00		2.00
Margins at Target TIER	2,134,628		2,225,997		2,225,997		2,445,565
Revenue Requirement at Target TIER	57,239,335		46,134,263		46,136,014		46,633,195
Revenue Deficiency at Target TIER	(572,923)		1,172,823		-		-
Variance from Target TIER			(0.53)		-		-
Target OTIER	1.85		1.85		1.85		1.85
Margins at Target OTIER	4,121,036		2,803,549		2,803,549		2,990,182
Revenue Requirement at Target OTIER	59,225,743		46,711,816		46,713,567		47,177,812
Revenue Deficiency at Target OTIER	1,413,485		1,750,375		577,552		544,617
Variance from Target OTIER			(0.79)		(0.26)		(0.22)
Increase \$					1,174,574	497,181	1,671,755
Increase %					2.15%	0.91%	3.07%

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00213 DATED SEP 18 2024

The following rates and charges are prescribed for the customers served by Shelby Energy Cooperative Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of this Commission prior to the effective date of this Order.

Residential Service – Rate 12

Customer Charge per Month	\$ 19.00
Energy Charge per kWh	\$ 0.09322

Prepay Service – Rate 15

Consumer Facility Charge per Day	\$ 0.62
Energy Charge per kWh	\$ 0.09321

General Service – Rate 11

Customer Charge Single Phase	\$ 23.55
Customer Charge Three Phase	\$ 52.41
Energy Charge per kWh	\$ 0.09189

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