COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF FLEMING-MASON ENERGY COOPERATIVE, INC. FOR A GENERAL ADJUSTMENT OF RATES	)))	CASE NO. 2023-00223

O R D E R

On August 28, 2023,[1] Fleming-Mason Energy Cooperative, Inc. (Fleming-Mason Energy) pursuant to KRS 278.180, KRS 278.190, and 807 KAR 5:001, filed an application requesting an increase to its rates.

BACKGROUND

Fleming-Mason Energy is a not-for-profit, member-owned, rural electronic distribution cooperative organized under KRS Chapter 279. Fleming-Mason Energy is engaged in the business of distribution retail electric power to 25,741 members in Bath, Bracken, Fleming, Lewis, Mason, Nicholas, Robertson, and Rowan counties.[2] Fleming-Mason Energy does not own any electric generating facilities and is one of the 16-member cooperatives that own and receive wholesale power from East Kentucky Power Cooperative, Inc.

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[1] Fleming-Mason Energy tendered its application on August 4, 2023. By letters date August 10, 2023, and August 21, 2023, the Commission rejected the application for filing deficiencies. An informal conference was held on September 20, 2023. The deficiencies were subsequently cured, and the application was deemed filed on August 28, 2023.

[2] Application at unnumbered page 1.

In its application, Fleming-Mason Energy requested an increase in revenues of $2,754,137, or 2.57 percent.[3] Fleming-Mason Energy also requested an increase of the monthly residential charge from $15.57 to $19.50 to move the customer charge to a cost based residential approach.[4]

The Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General), is the only intervenor in this matter.

By Order entered September 28, 2023, the Commission suspended the proposed rates up to and including March 1, 2024, and established a procedural schedule. On December 21, 2023, the procedural schedule was amended to establish a deadline by which the utility or any intervenor may request a hearing or that the case be submitted for decision based on the record, as well as extending the time for supplemental requests for information to Fleming-Mason Energy and scheduling an informal conference (IC). An IC was held on January 8, 2024. On January 23, 2024, Fleming-Mason Energy and the Attorney General waived a hearing but did request an opportunity to brief the matter. On January 31, 2024, the procedural schedule was amended again to allow for a briefing schedule. On February 8, 2024, Fleming-Mason Energy and the Attorney General submitted their initial briefs and on February 15, 2024, both parties submitted reply briefs. This matter now stands submitted to the Commission for a decision.

[3] Application at unnumbered page 3.

[4] Application at unnumbered page 3.

LEGAL STANDARD

Fleming-Mason Energy filed its application pursuant to KRS 278.180, KRS 278.190, and 807 KAR 5:001. The Commission's standard of review for a utility's request for a rate increase is whether the proposed rates are "fair, just and reasonable."[5] Fleming-Mason Energy bears the burden of proof to show that the proposed rates are fair, just and reasonable under the requirements of KRS 278.190(3).

TEST PERIOD

Fleming-Mason Energy used as its historical test period the 12-month period ending December 31, 2022.[6] No intervenor contested the use of this period as the test period.

The Commission finds that it is reasonable to use the 12-month period ending December 31, 2022, as the test period in this case based on the timing of Fleming-Mason Energy's application.

REVENUE REQUIREMENT

Revenues and Expense Adjustments Fleming-Mason Energy proposed 14 adjustments to normalize its test-year operating revenues and expenses. The Commission finds that eight of the proposed adjustments are reasonable and should be accepted without change. Shown below are the Commission approved adjustments:

- Interest Expense - $(510,636)
- Depreciation Normalization - $47,644
- Right of Way Expenses - $(191,406)

[5] KRS 278.300; *Pub. Serv. Comm'n v. Com. Ex rel. Conway*, 324 S.W.3d 373, 377 (Ky.2010).

[6] Application at unnumbered page 3.

- Interest Expense - $(510,636)
- G&T Capital Credits - $(2,991,660) from non-operating income
- Donations, Promotional Advertising, and Dues - $(191,501)
- Directors Expenses - $(13,189)
- 401K Contribution Expense - $(35,780)
- Life Insurance Expense - $(7,503)

Fuel Adjustment Clause and Environmental Surcharge. Fleming-Mason Energy proposed two adjustments to remove the Fuel Adjustment Clause (FAC) and Environmental Surcharge (ES) revenues and expenses from the test-year, in keeping with Commission precedent. In response to the Attorney General's requests for information, Fleming-Mason Energy revised these adjustments to correct a worksheet error.[7] The Commission finds that the revised adjustments are reasonable and should be accepted. The revised FAC adjustment reduces revenues by $11,390,316 and expenses by $11,162,273, for a net margin impact of $(228,043).

Right of Way Expenses. Fleming-Mason Energy proposed a pro forma adjustment to increase test-year right-of-way expenses by $191,406. Fleming-Mason Energy only performs hot-spot clearing of its rights-of-way, not regular cycle clearing. Fleming-Mason Energy stated that this adjustment adds expenses associated with the prospective requirements for vegetation management of Fleming-Mason Energy's right of way. Specifically, the proposed increase of the right-of-way maintenance expense was based on a new contract that was signed with Asplundh Tree Expert, LLC. Fleming-Mason

[7] Rebuttal Testimony of John Wolfram (Wolfram Rebuttal Testimony) (filed Dec. 22, 2023) at 10.

Energy stated that the adjustment replaces test year vegetation management expense with an annualized prospective amount.

Fleming-Mason Energy argued that it should increase the adjustment to account for actual miles cut in 2023, which was higher than the number of miles Fleming-Mason Energy needs to clear each year to achieve its eight-year clearing cycle.[8] The Commission finds that the original adjustment is reasonable and should be accepted. The average miles that must be cleared to maintain Fleming-Mason Energy's cycle is a more reasonable estimate of the going-forward costs.

Rate Schedule Revenues. Fleming-Mason Energy proposed an adjustment to reflect the number of customers at the year end.[9] Fleming-Mason Energy originally proposed to increase margin revenues by $126,109 to reflect the change to year-end customers to 253 customers.[10] Fleming-Mason Energy stated that the adjustments adjust test year expenses and revenues to accurately reflect the number of customers at the end of the year.[11] Fleming-Mason Energy stated that the number of customers served at the end of the test period for some rate classes differed from the average number of customers for the test year.[12] Fleming Mason Energy stated that the change in revenue was calculated by applying the average revenue per kWh for each rate class to the difference between average customer count and test-year-end customer count (at

[8] Wolfram Rebuttal Testimony at 11.

[9] Application, Direct Testimony of John Wolfram (Wolfram Direct Testimony) at 12.

[10] Wolfram Direct Testimony, Exhibit JW-2 at 2.

[11] Wolfram Direct Testimony at 12.

[12] Wolfram Direct Testimony at 12.

average kWh/customer) for each class.[13] Fleming-Mason Energy stated that the change in operating expenses was calculated by applying the operating ratio to the revenue adjustment, consistent with the approach accepted by the Commission for other utilities in rate proceedings.[14]

The Attorney General stated that there is a discrepancy between Reference Schedule 1.06 and Exhibit JW-9, which shows a breakdown of both present and proposed revenues, including all relevant billing determinants.[15] The Attorney General argued that the present revenues on the reference schedule should match those shown on Exhibit JW-9.[16] This would increase the revenue adjustment by approximately $16,548.[17]

Fleming-Mason Energy agreed with the Attorney General that the amounts on Reference Schedule 1.06 do not match the final amounts in Exhibit JW-9, and therefore asserted that this revision should be adopted.[18]

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that the Attorney General's adjustment, as adopted by Fleming-Mason Energy, is reasonable to correct Fleming-Mason Energy's calculation error.

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[13] Wolfram Direct Testimony at 12.

[14] Wolfram Direct Testimony at 12.

[15] Attorney General's Direct Testimony of Greg Meyer (Meyer Direct Testimony) (filed Nov. 27, 2023) at 8.

[16] Meyer Direct Testimony at 8.

[17] Meyer Direct Testimony at 8.

[18] Fleming-Mason Energy's Memorandum in Support of its Application for General Adjustment of Rates (Fleming-Mason Energy Brief) (filed Feb. 8, 2024) at 8; Wolfram Rebuttal Testimony at 3.

Wages and Salaries. Fleming-Mason Energy proposed an adjustment to wages and salaries that resulted in an increase of $41,530.[19] Fleming-Mason Energy stated that this adjustment normalizes its employees' wages and salaries to account for changes due to wage increases, departures, or new hires for a standard year of 2,080 hours.[20] Fleming-Mason Energy based the pro forma test year upon 51 employees at the standard year hours.[21] Fleming-Mason Energy's workforce consists of 49 employees as of the filing of its Application.[22] Fleming-Mason Energy based the overtime hours for the pro forma test year based on a five-year average.[23]

The Attorney General did not contest the pro forma test year wage rate.[24] The Attorney General argued that the adjustment is overstated due to an unjustified increase in regular-time hours and overtime hours due to the increased number of employees.[25] The Attorney General stated that Fleming-Mason Energy failed to provide justification for the increase from 49 to 51 employees.[26] The Attorney General argued that it is unfair to require Fleming-Mason Energy's customers to pay rates that include costs associated with vacant employee positions because those costs are merely speculative as there is

[19] Wolfram Direct Testimony, Exhibit JW-2 at 2.

[20] Wolfram Direct Testimony, Exhibit JW-2 at 14. t

[21] Wolfram Direct Testimony, Exhibit JW-2, page 14.

[22] Application, Exhibit 9, Direct Testimony of Lauren Fritz (Fritz Direct Testimony) at 8.

[23] Fleming-Mason Energy's Response to Commission Staff's Third Request for Information (Staff's Third Request) (filed Nov. 20, 2023), Item 6.

[24] Meyer Direct Testimony at 9.

[25] Meyer Direct Testimony at 9.

[26] Meyer Direct Testimony at 9.

no guarantee that the positions will be filled.[27] The Attorney General proposed that the regular time hours be calculated on 49 employees at 2,080 hours.[28] The Attorney General stated that after capitalization, this adjustment would decrease Fleming-Mason Energy's revenue deficiency by $96,461.[29]

The Attorney General argued that Fleming-Mason Energy failed to justify a substantial increase of 790 hours to overtime hours.[30] The Attorney General stated that a more thorough analysis is needed for such a significant increase in overtime hours, including a discussion of employee levels and additional workload required.[31] The Attorney General proposed that the overtime hours be equal to the test year amount of 7,063.[32] The Attorney General stated that "using the pro forma overtime wage rate of $51.31 and the approximately 31 percent capitalization rate results in an overtime wage expense of $230,429.[33] The Attorney General stated this adjustment would decrease Fleming-Mason Energy's proposed revenue deficiency by $25,774.[34]

In its rebuttal testimony, Fleming-Mason Energy argued that there has been a lot of movement in employee numbers, due to issues such as employee retirements. Fleming-Mason Energy stated that it is working to return to the 51 employee headcount

[27] Attorney General's Memorandum Brief (filed Feb. 8, 2024) at 5.

[28] Meyer Direct Testimony at 10.

[29] Meyer Direct Testimony at 10.

[30] Meyer Direct Testimony at 10.

[31] Meyer Direct Testimony at 10.

[32] Meyer Direct Testimony at 11.

[33] Meyer Direct Testimony at 11.

[34] Meyer Direct Testimony at 11.

threshold and had 52 employees at the end of 2023.[35] Fleming-Mason Energy stated that it is working now to hire for key positions such as engineering and IT support.[36]

Fleming-Mason Energy also argued that the five-year overtime average is a simple average of the amounts for the last five years and that it is reasonable to accept this adjustment.[37] Fleming-Mason Energy argued that the value it used is known and measurable, and that it proposed a five-year average because the test-year amounts were unusually low.[38] Fleming-Mason Energy stated that the five-year average is a more accurate representation of its overtime costs for a rate that will be applied prospectively.[39]

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that Fleming-Mason Energy's proposed adjustment is reasonable and should be approved. The 5-year average of overtime hours is a reasonable estimate to normalize wages and salaries and 51 employees is an appropriate level considering the 2023 employee level.

Healthcare Expenses. Fleming-Mason Energy originally proposed to increase its healthcare cost by $68,376.[40] Fleming-Mason Energy stated that the adjustment accounts for employee contributions to medical, dental, and vision insurance premiums and the overall 2023 increase in medical insurance costs by 9 percent over test year

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[35] Wolfram Rebuttal Testimony at 4.

[36] Wolfram Rebuttal Testimony at 4.

[37] Fleming-Mason Energy's Brief (filed Feb. 8, 2024) at 11.

[38] Fleming-Mason Energy's Brief at 11.

[39] Fleming-Mason Energy's Brief at 11.

[40] Wolfram Direct Testimony, Exhibit JW-2 at 2.

amounts.[41] Fleming-Mason Energy stated that the average premium increase approved by the Kentucky Rural Electric Cooperative Health group was 8.97 percent in 2022 for plan year 2023.[42] Fleming-Mason Energy also stated that this increase will help it stay ahead of medical inflation.[43] Fleming-Mason Energy stated that its contribution to employee health insurance premium is 20 percent, and that there is no adjustment necessary to reduce its contribution to employee insurance premiums as they are well below the Bureau of Labor Statistics' average.[44]

The Attorney General argued that Fleming-Mason Energy overstated its health care expense by $181,116.[45] The Attorney General argued that Fleming-Mason Energy made a mistake in the calculation of the adjustment, and that the test year expense should only be increased for the employer's portion, not the amount paid by employees.[46] The Attorney General argued that this single correction would reduce Fleming-Mason Energy's proposed revenue requirement by $29,915 and reduce its proposed increase to its healthcare cost expense to $38,462, not $68,376.[47]

Furthermore, the Attorney General objected to Fleming-Mason Energy's proposed 9 percent increase in employer insurance premium expense.[48] The Attorney General

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[41] Wolfram Direct Testimony at 14.

[42] Fleming-Mason Energy's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Oct. 24, 2023), Item 16.

[43] Fleming-Mason Energy's Response to Staff's Second Request, Item 16.

[44] Fleming-Mason Energy's Response to Staff's Second Request, Item 17.

[45] Meyer Direct Testimony at 15.

[46] Meyer Direct Testimony at 12.

[47] Meyer Direct Testimony at 12.

[48] Meyer Direct Testimony at 13.

stated that Fleming-Mason Energy's history suggests that they are looking to set rates for a longer term than just one year, so that a longer look at premiums would be useful. Looking at this, the Attorney General stated that premiums have grown between 5.82 percent to 7.17 percent over the 2019-2023 timeframe.[49] The Attorney General also cited a PricewaterhouseCoopers Health Research Institute report showing that health care costs in 2023 and 2024 were expected to increase by 6 percent and 7 percent respectively for both group and individual markets.[50] Based on this, the Attorney General proposed an adjustment to increase the test year employer's share of premiums by 6.5 percent.[51]

The Attorney General also argued that given that the health care costs are related to employees of Fleming-Mason Energy and these employees are performing work that relates to investments in plant, healthcare costs should be capitalized at the same rate as payroll.[52]

In its rebuttal testimony, Fleming-Mason Energy agreed with the Attorney General that there is a mistake in their calculation and that a portion of the health insurance premium costs should be capitalized.[53] However, Fleming-Mason Energy disagreed with the Attorney General in regard to Fleming-Mason Energy's proposed 9 percent increase in health-care premiums. Fleming-Mason Energy argued that the adjustment was based on actual 2023 premiums, not on any historical trends or speculation of future growth

[49] Meyer Direct Testimony at 14.

[50] Meyer Direct Testimony at 14.

[51] Meyer Direct Testimony at 14.

[52] Meyer Direct Testimony at 14.

[53] Wolfram Rebuttal Testimony at 7.

rates.[54] Fleming-Mason Energy argued that the as-filed adjustment represents a known and measurable change to the test year amounts.[55] Fleming-Mason Energy additionally argued that the premiums for every category are increasing each year in a non-linear fashion, and it would be inappropriate to ignore this accelerating growth.[56]

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that health insurance expenses should be increased by $52,529 to account for the normalized expense based on 2023 premiums[57] and plan participants.[58]

	(1) Premiums 2023	(2) Participants 2023	(3) Total Cost	(4) Employee Contribution	(5) Employer Contribution
			(1) * (2)	(3) * 20%	(3) - (4)
Employee	$548.23	15	$98,681	$19,736	$78,945
Employee w/Children	$1,131.36	7	$95,034	$19,007	$76,027
Employee w/Spouse	$1,296.20	9	$139,990	$27,998	$111,992
Employee/Family	$1,753.03	19	$399,691	$79,938	$319,753
			$733,396	$146,679	$586,717
			Test-year Expense		$534,188
			Adjustment		$52,529

Rate Case Expenses. Fleming-Mason Energy proposed to increase its test-year rate case expenses by $48,333 based on a three-year amortization of an estimated rate

[54] Wolfram Rebuttal Testimony at 6.

[55] Wolfram Rebuttal Testimony at 6.

[56] Fleming-Mason Energy's Brief at 12.

[57] Fleming-Mason Energy's Response to Staff's Second Request, Item 16.

[58] Fleming-Mason Energy's Response to Staff's Third Request, Item 7.

case expense of $145,000.[59] On March 20, 2024, Fleming-Mason Energy updated its total rate case expenses incurred thus far to $115,737.50.[60]

The Attorney General did not have issues with the total rate case expense being sought.[61] However, the Attorney-General argued that the three-year amortization period is too short and that a five-year amortization period is more appropriate.[62] The Attorney General stated that Fleming-Mason has not filed a general rate case seeking an increase in rates since 2007, over 15 years ago.[63] The Attorney General stated that a five-year amortization period adjustment would reduce the revenue requirement by $19,333.[64]

Fleming-Mason Energy responded that the three-year amortization period is consistent with the approach accepted by the Commission in every electric utility rate case filing of which it is aware and cited to Commission precedent.[65] Fleming-Mason Energy stated that it is also reasonable to expect that it will file rate cases more frequently in the future.[66]

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that rate case expenses should be amortized over a four-year period. The Commission agrees with the Attorney General that a three-year amortization period

[59] Wolfram Direct Testimony, Exhibit JW-2 at 17.

[60] Wolfram Direct Testimony, Exhibit JW-2 at 17.

[61] Meyer Direct Testimony at 6.

[62] Meyer Direct Testimony at 7.

[63] Attorney General's Memorandum Brief at 7.

[64] Attorney General's Memorandum Brief at 8.

[65] Fleming-Mason Energy's Brief at 9-10.

[66] Fleming-Mason Energy's Brief at 9-10.

is too short, but finds that a four, rather than five-year amortization period is more appropriate as Fleming-Mason Energy has stated it will file more frequent rate cases. In the event that Fleming-Mason Energy files a rate case before the full amortization of its rate case expenses, it may seek recovery of the remaining balance. However, if Fleming-Mason Energy does not file a rate case in the next four years, customers will not be credited for the over-recovery. A four-year amortization period and using the actual rate case expense results in an expense of $28,934.

Times Earned Ratio (TIER) and Operating Times Interested Earned Ratio (OTIER) Calculation. In its application, Fleming-Mason Energy proposed to base the revenue requirement on a 1.85 OTIER.[67] Fleming-Mason Energy also calculated target margins at a TIER of 2.00.[68] Fleming-Mason Energy stated that using OTIER instead of TIER produced a slightly lower overall rate increase for members.[69] Fleming-Mason Energy cited that the Commission's streamlined rate pilot program allows for a maximum OTIER of 1.85, and that while the instant case is not a streamlined case, following the streamlined procedure is a reasonable approach for establishing margins without the time and expense for retaining another expert witness to perform a standalone study for establishing the OTIER target.[70]

The Attorney General argued that the Commission should adopt a 1.5 OTIER.[71] The Attorney General argued that this proposal would save ratepayers $545,304 annually

[67] Wolfram Direct Testimony at 8.

[68] Wolfram Direct Testimony at 8.

[69] Wolfram Direct Testimony at 9.

[70] Wolfram Direct Testimony at 8.

[71] Attorney General's Memorandum Brief at 5.

while still providing over $500,000 of increased expense protection.[72] The Attorney General stated that Fleming-Mason Energy's loan contracts require OTIER coverage much lower than 1.85.[73] Next, the Attorney General argued that collecting excess rates could damage certain ratepayers financially due to lag in returning capital credits to ratepayers.[74] The Attorney General argued that an OTIER of 1.85 is not supported by market conditions because Fleming-Mason Energy's long term debt is held at 100 percent fixed interest rates.[75] The Attorney General argued that the authorization of an excess OTIER acts as a disincentive to controlling discretionary spending, limiting the effect of Commission disallowance of authorized expenditures.[76]

Fleming-Mason Energy responded by stating that the Attorney General ignored the fact that Fleming-Mason Energy's debts have maturity dates that will likely adversely affect Fleming-Mason Energy's energy expense.[77] Fleming-Mason argued that in today's volatile market a $500,000 margin is insufficient to protect Fleming-Mason Energy from unforeseen costs or provide sufficient funds for Fleming-Mason Energy to cash flow.[78] Fleming-Mason Energy cited that the Commission has historically supported healthy financial metrics that ensure a member-owned cooperative is able to adequately and

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[72] Attorney General's Memorandum Brief at 5.

[73] Attorney General's Memorandum Brief at 3-4.

[74] Attorney General's Memorandum Brief at 4.

[75] Attorney General's Memorandum Brief at 4.

[76] Attorney General's Memorandum Brief at 4.

[77] Fleming-Mason Energy's Reply Memorandum in Support of its Application for General Adjustment of Rates (Fleming-Mason Energy's Reply Brief) (filed Feb. 15, 2024) at 2.

[78] Fleming-Mason Energy's Reply Brief at 2.

reasonably serve its members, and that it has enough margins to operate its business for the benefit of its members.[79]

The Commission finds that Fleming-Mason Energy's rates should be based on a 2.0 TIER, which will include the non-utility margins in base rates because TIER is based on net margins. The Commission notes that using a 2.0 TIER is consistent with precedent.[80] Additionally, there is a minimal difference between TIER and OTIER for Fleming-Mason Energy.

Revenue Requirement Summary. The pro forma adjustments are found in Appendix A. The effects of the adjustments on Fleming-Mason Energy's net income results in utility operating margins of $1,256,130 based upon a total revenue of $74,272,937, a total cost of electric service of $76,394,457 and resulting net margins of $1,558,012. The resulting cretic metrics are a 2.0 TIER, a 1.85 OTIER, and a debt service coverage ratio of 1.73, all of which will give Fleming-Mason Energy a reasonable margin to achieve its debt covenants.

RATE DESIGN

COST OF SERVICE STUDY (COSS)

Fleming-Mason Energy filed a fully allocated COSS based upon the 12 Coincident Peak (12CP) methodology in order to determine the cost to serve each customer

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[79] Fleming-Mason Energy's Reply Brief at 2.

[80] Case No. 2023-00158, *Electronic Application of Farmers Rural Electric Cooperative Corporation for a General Adjustment of Rates Pursuant to Streamlined Procedure Pilot Program Established in Case No. 2018-00407* (Ky. PSC Oct. 3, 2023), Order at 13; Case No. 2023-00213, *Electronic Application of Shelby Energy Cooperative, Inc. for a General Adjustment of Rates Pursuant to Streamlined Procedure Pilot Program Established in Case No. 2018-00407* (Ky. PSC Oct. 17, 2023), Order at 9-10.

class.[81] With the 12CP methodology, Fleming-Mason Energy explained that demand-related costs are allocated on the basis of the demand for each rate class at the time of the wholesale system peak for each of the 12 months in the test year and customer-related costs are allocated on the basis of the average number of customers served in each rate class during the test year.[82]

For the distribution components, the zero intercept was used for the overhead conductors, underground conductors, and transformers.[83] This COSS determined Fleming-Mason Energy's overall rate of return on rate base and the relative rates of return (ROR) from each rate class and was used as a guide in the proposed rate design.[84] The ROR on rate base are illustrated below:[85]

Rate	ROR on Rate Base	Unitized ROR on Rate Base
Residential & Small Power	(3.25%)	(1.73)
Residential & Small Power (ETS)	(12.87%)	(6.86)
Prepay	(3.39%)	(1.80)
Net Metering	(11.43%)	(6.09)
Time of Day	1.94%	2.55
Inclining Block Rate	4.79%	12.34

[81] Wolfram Direct Testimony at 18.

[82] Wolfram Direct Testimony at 19.

[83] Wolfram Direct Testimony at 17.

[84] Wolfram Direct Testimony, at 20-21.

[85] FME-COS-2022-Rebuttal.xlsx, Summary of Returns Tab.

Small General Service	23.16%	12.34
Large General Service	5.69%	3.03
All Electric School	6.64%	3.54
Security Lights	36.20%	19.28
App Harvest	N/A	N/A
Dravo	N/A	N/A
Guardian Industries	N/A	N/A
Int'l Paper	N/A	N/A
Tennessee Gas	N/A	N/A
Total	1.88%	1.00

Having reviewed Fleming-Mason Energy's COSS, the Commission finds it to be reasonable, thus acceptable for use as a guide in allocating the revenue increase granted herein.

Revenue Allocation and Rate Design

Based on the results of the COSS, there is indication that the current rates illustrate a certain degree of subsidization between the rate classes, and, at current rates, Fleming-Mason Energy stated that there is an imbalance to the current rate structure.[86] Fleming-Mason Energy explained that the residential and small commercial classes, specifically, are providing less than their cost to serve and the imbalance in rate structures are due to the recovery of fixed and variable costs.[87] Fleming-Mason Energy explained that the

[86] Wolfram Direct Testimony at 21.

[87] Wolfram Direct Testimony at 22.

need to increase rates is mainly limited to the residential class because they are the class that is significantly under recovering from rates.[88]

Fleming-Mason Energy asserted that the COSS supports a fixed monthly charge of $21.07 for the Residential class.[89] However, Fleming-Mason Energy is only proposing to increase the residential customer charge from $15.57 to $19.50.[90] Additionally, because the residential customer charge is increasing for the Residential class, then the customer charge increase would also have to be applied to the Prepay and Inclining Block Rate classes also.[91] Fleming-Mason Energy also proposed to maintain the current differential between the customer charges for the Time of Day (TOD) and Residential & Small Power classes by increasing the customer charge for the TOD rates from $18.97 per month to $22.90 per month.[92] Fleming-Mason Energy explained that the customer charge remaining too low is a significant issue because the current rate structure places too little recovery of fixed costs in the customer charge, which results in significant under-recovery of fixed costs, particularly when members embrace conservation or energy efficiency or otherwise reduce overall consumption.[93] Fleming-Mason Energy explained that its proposed rate structure moves towards the direction of cost-based rates and is consistent with the principle of gradualism.[94]

[88] Wolfram Direct Testimony at 21.

[89] Wolfram Direct Testimony at 21.

[90] Wolfram Direct Testimony at 23.

[91] Wolfram Direct Testimony at 23.

[92] Wolfram Direct Testimony at 23.

[93] Wolfram Direct Testimony at 21-22.

[94] Wolfram Direct Testimony at 25.

In its rebuttal testimony, Fleming-Mason Energy further explained that in Commission Staff's Second Request Item 3(b), Commission Staff asked about how for the TOD and Inclining Block rate that, considering both have a positive return on rate base, increasing the customer charge and decreasing the energy charges benefits both Fleming-Mason Energy and its customers.[95] Fleming-Mason Energy responded that because the proposed rate changes are revenue neutral for both TOD and Inclining Block customers, the fact that the ROR on rate base is positive is not relevant, because the ROR on rate base will not change.[96] However, Fleming-Mason Energy explained that upon further consideration, because the rates of return for both the Inclining Block rate class and the TOD rates are positive, Fleming-Mason Energy will withdraw its request to revise the Inclining Block and TOD rates, leaving the current customer charge and energy charges unchanged.[97] The revised Revenue Allocation with the ROR after the rate revision is illustrated below:[98]

Rate	Proposed Revenue Increase	ROR After Rate Revision
Residential & Small Power	$1,888,734	(0.16%)
Residential & Small Power (ETS)	$3,883	(10.41%)
Prepay	$44,038	(1.57%)
Net Metering	$4,833	(11.33%)
Time of Day	-	1.94%

[95] Wolfram Rebuttal Testimony at 10.

[96] Wolfram Rebuttal Testimony at 11.

[97] Wolfram Rebuttal Testimony at 11.

[98] FME-Pres-Prop-Rates-2022-Rebuttal.xlsx, Summary Tab and FME-COS-2022-Rebuttal.xlsx, Summary of Returns Tab.

Inclining Block Rate	-	4.79%
Small General Service	-	23.16%
Large General Service	-	5.69%
All Electric School	-	6.64%
Security Lights	-	36.20%
App Harvest	-	-
Dravo	-	-
Guardian Industries	-	-
Int'l Paper	-	-
Tennessee Gas	-	-
Total	$1,941,487	4.35%

In its brief, the Attorney General explained that the proposed residential customer charge is unreasonable and that the Commission should rely on the principle of gradualism when awarding any increase to the residential monthly customer charge.[99] In its reply brief, Fleming-Mason Energy argued that its rate design is reasonable and is supported by the COSS.[100]

The Commission gives substantial weight to the evidence from the COSS that indicates other classes are earning considerably more than the residential class relative to their cost of service. The Commission acknowledges, specifically, that majority of the residential service classes have negative ROR's while the general service classes have a relatively high ROR. Therefore, the Commission notes that majority of the increase should be applied to the classes with a negative ROR's. However, due to the rate design

[99] Attorney General Brief at 8.

[100] Fleming-Mason Energy's Reply Brief at 5-6.

of the residential service classes, the Commission will increase all residential customer charges for all residential service classes but will not increase or decrease the energy charges for the Residential TOD and Inclining Block Rate classes. The Commission notes that the Residential TOD class should continue to have a differential due to its unique rate design and the fact that a residential service class should not have a lower customer charge than the Residential & Small Power class.

Therefore, based upon the Commission-approved revenue requirement and an increase of $1,827,333, the Commission finds the allocation of proposed revenue increase to the classes of service are reasonable. The Commission notes that it has consistently been in favor of raising the customer charge in utility rate cases to reflect the fixed costs inherent in providing utility service. However, the Commission is also in favor of the principal of gradualism in ratemaking, which mitigates the financial impact of rate increases on customers. Therefore, the Commission finds that Fleming-Mason Energy's residential customer charge should increase from $15.57 to $19.00, which is approximately a 22 percent increase. Additionally, as noted above, the Commission agrees that the customer charge differential should continue between the Residential & Small Power class and Residential TOD class and therefore the TOD customer charge should be increased from $18.97 to $23.50, which is approximately a 24 percent increase. The Commission notes that the ROR's for majority of the residential service classes will continue to be negative even after this rate case and the Commission expects Fleming-Mason Energy to find cost effective alternatives to increase the RORs for those classes and also address any subsidization within its classes in its next rate case.

TARIFF CHANGE

Fleming-Mason Energy proposed several textual revisions to its tariff. The Attorney General did not submit testimony or argue against these textual changes. The first text change is under the applicability sections of the Residential and Small Power-Schedule RSP, the Residential and Small Power-Time of Day-Schedule RSP-TOD, and the Residential and Small Power-Inclining Block-Schedule RSP-IB. Fleming-Mason Energy proposed the same textual change to those three sections. The textual change added the term "residential" and the phrase "as well as single phase small agricultural and small power use." The updated language proposed reads, "Available to all members of the Cooperative for all *residential* service, *as well as single phase small agricultural and small power use* requiring not more than 25kVa of transformer capacity."[101]

The next change was a text revision to Small General Service-Schedule SGS. The proposed change removes the phrase "requiring 30kva to 112.5kva transformer capacity." The updated language proposed reads, "Available to all members of the Cooperative for all service *including single phase non-residential or three-phase commercial and three-phase farm service up to 112.5 KVA transformer capacity*."[102]

The third change was a text revision to Large General Service-Schedule LGS. The proposed update added the language "and less than 1,500 KVA transformer capacity." The updated language proposed reads, "Available to all members of the Cooperative for

[101] P.S.C. Ky. No 4 First Revised Sheet No. 1 (issued Aug. 4, 2023), effective Oct. 1, 2023; P.S.C. Ky. No 4.1 First Revised Sheet No. 1 (issued Aug. 4, 2023), effective Oct. 1, 2023; P.S.C. Ky. No 5 First Revised Sheet No. 1 (issued Aug. 4, 2023), effective Oct. 1, 2023.

[102] P.S.C. Ky. No 4 First Revised Sheet No. 11 (issued Aug. 4, 2023), effective Oct. 1, 2023.

all service requiring greater than 112.5kVa *and less than 1,500 KVA transformer capacity* at voltages of 25kv or less."[103]

Fleming-Mason Energy also requested the following changes under the Outdoor Lighting Service-Schedule OLS. Fleming-Mason Energy proposed changes to Light-Emitting Diode (LED) to divide the service levels by lumen range and add the Residential Directional class. Fleming-Mason Energy did not propose adjustment the rates for existing classes. The proposed charges under LED are:

5,000 - 7,500 Lumens	Standard Service	$9.13/Mo.
8,000 - 12,000 Lumens	Roadway	$12.52/Mo.
5,000 - 7,500 Lumens	Residential Directional	$14.67/Mo.
19,000 – 23,000 Lumens	Commercial Directional	$24.90/Mo.

The proposed change under the Additional Charges sections was "The above charge and term applies to lights mounted on existing Cooperative poles with 120 volts available. If light requires the addition of a new wood pole, a charge of $350 will be required in advance. New additions of metal or decorative poles shall be paid at full cost in advance of installation."[104]

Fleming-Mason Energy requested multiple textual changes under All Electric School- Schedule AES. The first proposed change, under the Applicability section, added "separately metered" and "electric vehicle chargers." The updated proposed language reads, "Available to all public or nonprofit schools whose total energy requirement,

[103] P.S.C. Ky. No 4 First Revised Sheet No. 12 (issued Aug. 4, 2023), effective Oct. 1, 2023.

[104] P.S.C. Ky. No 4 First Revised Sheet No. 13.1 (issued Aug. 4, 2023), effective Oct. 1, 2023.

excluding *separately metered* lighting for athletic fields and *electric vehicle chargers*, is supplied by electricity furnished by the Cooperative."[105]

Fleming-Mason Energy requested multiple changes under Rule 4 Obligation to Extend. Under Rule 4 (A), the proposed changes add the additional sentences, "The 'service drop' to member premises from the distribution line at the last pole shall not be included in the foregoing measurements. The distribution line extension shall be limited to residential type services."[106] The next change is under Rule 4(A) (2) which removed "$3.00 per foot, excessive right of way charges may be applicable" and replaced it with "the total cost of the excessive footage over 1,000 feet per customer. The amount shall be deposited by the applicant or applicants based on the estimated cost of the total extension including right-of-way clearing."[107] Rule 4(A) (3) added, "For additional members connected to an extension or lateral from the distribution line, the Cooperative shall refund to any member who paid for excessive footage the cost of 1,000 feet of line less the length of the lateral or extension. No refund shall be made to any member who did not make the advance originally."[108]

Fleming-Mason Energy requested several changes under Rule 4(B). Rule 4(B)(2) removed "billed at $3.00 per foot, Excessive right of way charges may be applicable" and replaced it with "charged the total cost of the excessive footage over 300 feet per customer shall be deposited by the applicant or applicants based on the estimated cost

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[105] P.S.C. Ky. No 4 First Revised Sheet No. 14 (issued Aug. 4, 2023), effective Oct. 3, 2023.

[106] P.S.C. Ky. No 4 First Revised Sheet No. 100.10 (issued Aug. 4, 2023), effective Oct. 1, 2023.

[107] P.S.C. Ky. No 4 First Revised Sheet No. 100.10 (issued Aug. 4, 2023), effective Oct. 1, 2023.

[108] P.S.C. Ky. No 4 First Revised Sheet No. 100.10 (issued Aug. 4, 2023), effective Oct. 1, 2023.

of the total extension including right-of-way clearing."[109] This section also added "excluding all service line" after "All extension over 300 feet".[110] The final change is under Rule 4(B)(3) which added, "For additional members connected to an extension or lateral from the distribution line, the Cooperative shall refund to any member who paid for excessive footage the cost of 1,000 feet of lines less the length of the lateral or extension. No refund shall be made to any member who did not make the advance originally."[111]

The Commission has reviewed the requested changes and language revisions and finds that they are reasonable and should be approved.

IT IS THEREFORE ORDERED that:

1. The rates and charges proposed by Fleming-Mason Energy are denied.

2. The rates and charges, as set forth in Appendix B to this Order, are approved as fair, just and reasonable rates for Fleming-Mason Energy, and these rates and charges are approved for service rendered on and after the date of entry of this Order.

3. Within 20 days of the date of entry of this Order, Fleming-Mason 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 date and that it was authorized by this Order.

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

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[109] P.S.C. Ky. No 4 First Revised Sheet No. 100.10 (issued Aug. 4, 2023), effective Oct. 1, 2023.

[110] P.S.C. Ky. No 4 First Revised Sheet No. 100.10 (issued Aug. 4, 2023), effective Oct. 1, 2023.

[111] P.S.C. Ky. No 4 First Revised Sheet No. 100.11 (issued Aug. 4, 2023), effective Oct. 1, 2023.

PUBLIC SERVICE COMMISSION

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Chairman

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Vice Chairman

____

Commissioner

ENTERED

JUN 28 2024

rcs

KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

____

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00223 DATED JUN 28 2024

Item (1)	Revenue (2)	Expense (3)	Non-Operating Income (4)	Net Margin (5)
Fuel Adjustment Clause	(11,390,316)	(11,162,273)		(228,043)
Environmental Surcharge	(9,565,976)	(9,613,093)		47,117
Interest Expense		510,636		(510,636)
Depreciation Normalization		(47,644)		47,644
Right of Way		191,406		(191,406)
Year End Customers	349,932	207,275		142,657
G&T Capital Credits			(2,991,660)	(2,991,660)
Donations, Promo Ads & Dues		(191,501)		191,501
Directors Expenses		(13,189)		13,189
Wages & Salaries		41,530		(41,530)
401k Contributions		(35,780)		35,780
Health Care Costs		52,529		(52,529)
Rate Case Costs		28,934		(28,934)
Life Insurance		(7,503)		7,503
				-
Total	(20,606,360)	(20,038,673)	(2,991,660)	(3,559,347)

Line #	Description (1)	Actual Rates Actual Test Yr (2)	Pro Forma Adjustment (3)	Present Rates Adj Test Yr (4)	Proposed Rates Adj Test Yr (5)	Proposed Rates Adj Test Yr (6)
1	Operating Revenues					
2	Total Sales of Electric Energy	93,828,042	(20,606,360)	73,221,682	75,049,015	75,038,595
3	Other Electric Revenue	1,051,255	-	1,051,255	1,051,255	1,051,255
4	Total Operating Revenue	94,879,297	(20,606,360)	74,272,937	76,100,270	76,089,850
5						
6	Operating Expenses:					
7	Purchased Power	80,627,507	(20,568,091)	60,059,416	60,059,416	60,059,416
8	Distribution Operations	1,828,772	-	1,828,772	1,828,772	1,828,772
9	Distribution Maintenance	3,768,447	191,406	3,959,853	3,959,853	3,959,853
10	Customer Accounts	1,414,494	-	1,414,494	1,414,494	1,414,494
11	Customer Service	116,959	-	116,959	116,959	116,959
12	Sales Expense	79,733	-	79,733	79,733	79,733
13	A&G	1,621,964	(110,395)	1,511,569	1,511,569	1,511,569
14	Total O&M Expense	89,457,876	(20,487,080)	68,970,796	68,970,796	68,970,796
15						
16	Depreciation	4,143,755	(47,644)	4,096,111	4,096,111	4,096,111
17	Taxes - Other	74,473	-	74,473	77,197	77,197
18	Interest on LTD	1,047,376	510,636	1,558,012	1,558,012	1,558,012
19	Interest - Other	142,023	-	142,023	142,023	142,023
20	Other Deductions	14,585	(14,585)	-	-	-
21						
22	Total Cost of Electric Service	94,880,088	(20,038,673)	74,841,416	74,844,140	74,844,140
23						
24	Utility Operating Margins	(791)	(567,687)	(568,479)	1,256,130	1,245,710
25						
26	Non-Operating Margins - Interest	53,642	-	53,642	53,642	53,642
26a	Income(Loss) from Equity Investments	-	-	-	-	-
27	Non-Operating Margins - Other	32,962	-	32,962	32,962	32,962
28	G&T Capital Credits	2,991,660	(2,991,660)	-	-	-
29	Other Capital Credits	215,278		215,278	215,278	215,278
30						
31	Net Margins	3,292,751	(3,559,347)	(266,597)	1,558,012	1,547,592
32						
33	Cash Receipts from Lenders	75,876		75,876	75,876	75,876
34	OTIER	1.07		0.68	1.85	1.85
35	TIER	4.14		0.83	2.00	1.99
36	TIER excluding GTCC	1.29		0.83	2.00	1.99
37						
38	Target TIER	2.00		2.00	2.00	2.00
39	Margins at Target TIER	1,047,376		1,558,012	1,558,012	1,558,012
40	Revenue Requirement at Target TIER	95,927,464		76,399,428	76,402,152	76,402,152
41	Revenue Deficiency at Target TIER	(2,245,375)		1,824,609	(0)	10,420
42	Variance from Target TIER			(1.17)	-	(0.01)
43						
44	Target OTIER	1.85		1.85	1.85	1.85
45	Margins at Target OTIER	4,107,936		1,550,317	1,550,317	1,550,317
46	Revenue Requirement at Target OTIER	98,988,024		76,391,732	76,394,457	76,394,457
47	Revenue Deficiency at Target OTIER	815,185		1,816,913	(7,696)	2,724
48	Variance from Target OTIER			(1.17)	0.00	(0.00)
49						
50					**Based on TIER**	**Based on OTIER**
51	Increase over Adjusted Test Year $				$ 1,827,333	$ 1,816,913
52	Increase over Adjusted Test Year %				2.50%	2.48%

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00223 DATED JUN 28 2024

The following rates and charges are prescribed for the customers served by Fleming-Mason 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 & Small Power

Customer Charge per Month	$ 19.00
Energy Charge per kWh	$ 0.08581

Residential & Small Power ETS

Customer Charge per Month	$ 19.00
Energy Charge per kWh	$ 0.08581
Energy Charge – Off Peak per kWh	$ 0.05232

Prepay

Customer Charge per Month	$ 19.00
Energy Charge per kWh	$ 0.08581

Net Metering

Customer Charge per Month	$ 19.00
Energy Charge per kWh	$ 0.08581

Time of Day

Customer Charge per Month	$ 23.50

Inclining Block Rate

Customer Charge per Month	$19.00

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