

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LICKING VALLEY RURAL)	
ELECTRIC COOPERATIVE CORPORATION)	CASE NO.
FOR AN ORDER ISSUING A CERTIFICATE OF)	2016-00077
PUBLIC CONVENIENCE AND NECESSITY)	

ORDER

On February 15, 2016, Licking Valley Rural Electric Cooperative Corporation (“Licking Valley”) tendered an application seeking a Certificate of Public Convenience and Necessity (“CPCN”) to purchase and install an Advanced Metering Infrastructure (“AMI”) system to replace its existing metering system. Licking Valley’s application was initially deemed to be deficient, but the filing deficiency was cured and its application was accepted for filing on February 22, 2016.

The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention (“Attorney General”), is the only intervenor in this matter. A procedural schedule was established that provided for, among other things, two rounds of discovery and a deadline for the parties to request a hearing or state that the case may be submitted for a decision on the written record. On May 12, 2016, the Attorney General requested a hearing, asserting that material issues of fact exist regarding the necessity of the proposed AMI system upgrade and the type of replacement meters required for that upgrade. An informal conference was held on May 31, 2016, to clarify certain issues in the case. On June 17, 2016, the Attorney General filed final comments

("Attorney General's Comments") stating that a hearing was not necessary and that the case could be submitted for a ruling upon the record. Although not explicitly stated, the Commission deems the Attorney General's comments to be a withdrawal of his earlier request for a hearing on this matter. On June 29, 2016, the Commission issued an Order providing Licking Valley an opportunity to respond to the Attorney General's comments. Licking Valley did not file a response. The matter now stands submitted for a decision based upon the evidentiary record.

BACKGROUND

Licking Valley's existing meter system is a power line carrier ("PLC") system¹ consisting of two established metering technologies: 13,764 Landis + Gyr Hunt Turtle 1 ("TSI") Automated Meter Reading ("AMR") meters and 3,563 Turtle 2 ("TSII") AMI PLC meters.² Licking Valley has upgraded five of its ten substations to TSII compatibility, with approximately 20 percent of its members utilizing TSII meters from the upgraded substations.³ The TSI meters are 95 percent depreciated, and the TSII meters are 50 percent depreciated.⁴

Licking Valley proposes to replace its current meter system because the TSI meters are becoming obsolete, and technical support for TSII meters will not be

¹ Power Line Carrier technology transmits data over existing Licking Valley electric power lines.

² Licking Valley's Response to Commission Staff's First Request for Information ("Response to Staff's First Request"), Item 2.a.

³ Licking Valley's Response to Commission Staff's Second Request for Information ("Response to Staff's Second Request"), Item 1.a.

⁴ Response to Staff's First Request, Item 6.b.

provided in the future.⁵ Licking Valley determined that continuing forward with TSII rollout would expose Licking Valley and its ratepayers with an unsupported meter system.⁶ Because Licking Valley decided to pursue the proposed system upgrade to prevent investing additional money in obsolete technology and not for cost-saving reasons, Licking Valley did not conduct a formal study or cost/benefit analysis when deciding to replace its existing meters.⁷

Licking Valley issued a request for proposals (“RFP”) for a Radio Frequency (“RF”) AMI system; four bidders submitted proposals.⁸ Based upon its analysis of the bids, Licking Valley selected a Landis + Gyr RF AMI metering system operating on a RF mesh network. The proposed AMI metering system will be capable of, among other things, remote connect/disconnect, and access by Licking Valley ratepayers to their account information, including online bill payment, via an online portal.⁹ After selecting the proposed metering system, Licking Valley conducted a pilot project to ensure compatibility of the network with the terrain of Licking Valley’s service territory; Licking Valley deemed the results of the pilot to be satisfactory.¹⁰

⁵ Response to Staff’s First Request, Items 1.a. and 10; Response to Staff’s Second Request, Item 2.

⁶ Licking Valley’s Response to Attorney General’s Second Request for Information (“Response to Attorney General’s Second Request”), Item 1.

⁷ Response to Staff’s First Request, Item 10; and Response to Attorney General’s Second Request, Item 12.

⁸ Response to Staff’s First Request, Item 4.

⁹ Response to Staff’s First Request, Item 4.c.

¹⁰ Response to Staff’s Second Request, Item 9.

Licking Valley personnel will install and maintain the proposed AMI system.¹¹ The Rural Utility Service has approved the proposed project and has agreed to provide loan funding for Licking Valley's proposed \$4,423,174 replacement of its current metering system.¹² Licking Valley anticipates the proposed project will be completed in two to three years.¹³

DISCUSSION

Licking Valley is the third distribution cooperative in Kentucky to be faced with the decision of whether to continue to utilize equipment that is not supported by the manufacturer and not fully AMI functional or to expend funds to upgrade to a fully functional AMI system.¹⁴ Licking Valley faces two choices: replace its existing system with a new RF AMI metering system at a cost of \$4,423,147, or continue to invest in what Licking Valley asserts is an obsolete and unsupported system. Historically, the Commission has not issued a CPCN for meter replacement absent a cost-benefit analysis, but has on occasion approved meter replacement requests when the petitioners have provided the Commission with evidence of extenuating circumstances, such as the obsolescence of existing systems, along with exhibits showing the

¹¹ Application at Exhibit 1; and Response to Staff's Second Request, Item 5.a.

¹² Application at paragraphs (e)–(f).

¹³ Response to Staff's First Request, Item 2.f.

¹⁴ See Case No. 2014-00436, *Application of Nolin Rural Electric Cooperative Corporation for an Order Pursuant to KRS 807 5:001 and KRS 278.020 Requesting the Granting of a Certificate of Public Convenience and Necessity to Install an AMI System* (Ky. PSC Mar. 12, 2015). (Nolin Rural Electric Cooperative Corporation was granted a CPCN to replace its existing TSII meters with a new AMI system, because the manufacturer was no longer supporting TSII meters.) See also Staff Opinion 2014-016 (Nov. 14, 2014); Grayson RECC's response to Staff Opinion 2014-016 (Dec. 1, 2014); and Staff Opinion 2014-016A (Dec. 12, 2014). (Grayson Rural Electric Cooperative Corporation halted its plans to replace its TSI meters with TSII meters because the TSII meters would be obsolete before the project was completed; the proposed system upgrade has been deferred pending future technological developments.)

associated costs.¹⁵ Here, Licking Valley has provided evidence that its existing system is obsolete, along with exhibits documenting Licking Valley's evaluation of multiple proposals filed in response to a RFP and the costs of the proposed system that was selected.

In the Attorney General's Comments, he recommended that the Commission take additional steps prior to rendering a decision in this case, and to make the approval subject to certain conditions.

First, the Attorney General recommended that in advance of any Commission decision, Commission Staff prepare a report determining whether the existing system is obsolete and which is the least-cost option.¹⁶ The Attorney General recommended that the Commission grant a CPCN for TSII meters only, and not the RF AMI metering system, if Commission Staff determines that there is continuing technical support for TSII meters and that their use would result in the least cost.¹⁷ Alternatively, the Attorney General recommends that the Commission grant a CPCN for the proposed RF AMI system upgrade only if Staff determines that the TSII meters will not be supported or that they are not the least-cost alternative.¹⁸

As a basis for this recommendation, the Attorney General contends that Licking Valley supplied inconsistent evidence, first indicating that TSII will no longer be

¹⁵ See Case No. 2014-00436, *Nolin Rural Electric Cooperative Corporation* (Ky. PSC Mar. 12, 2015).

¹⁶ Attorney General's Comments at 4–5.

¹⁷ *Id.*

¹⁸ *Id.*

supported by Landis + Gyr, but also indicating that ample support for TSII continues.¹⁹ The Commission finds that Licking Valley provided sufficient evidence that Landis + Gyr is discontinuing technical support for TSII meter software technology, which provides AMI functionality. The Commission further finds that Licking Valley provided sufficient information that the PLC system, which is the information-delivery system that transmits data to and from the meter, remains a viable but rarely chosen option, as most of the industry is selecting RF systems over PLC systems.²⁰ Thus, the evidence submitted by Licking Valley is not inconsistent, and there is no need for Licking Valley to provide any additional information or for Commission Staff to file any report. The primary reason for Licking Valley's request is that continued deployment of unsupported TSII meters is not a prudent technical or financial decision, and the evidence of record is sufficient for the Commission to now render its decision.

The Attorney General next recommended that the Commission order Licking Valley to reduce its meter reading expenses by an appropriate amount.²¹ As a basis for this recommendation, the Attorney General questions Licking Valley's assertion that there would not be a decline in meter reading expense under the proposed system.²² The Commission shares the Attorney General's concern regarding potential meter

¹⁹ *Id.* at 4. The Attorney General cited the following for the proposition that TSII meters will not be supported by Landis + Gyr: Licking Valley's Response to Attorney General's Second Request, Item 1; Licking Valley's Response to Staff's First Request, Items 1 and 2.g.; and Application, Exhibit 1 at 1. For the assertion that ample support continues for TSII meters, the Attorney General cited Licking Valley's Response to Attorney General's Initial Data Request, Exhibit 5 at 3 of 9.

²⁰ Response to Staff's Second Request, Item 2. (Landis + Gyr reports that it has not sold a PLC system in the past six years.)

²¹ Attorney General's Comments at 5.

²² *Id.*

reading savings, but notes that Licking Valley experienced meter reading savings from staff reductions when it installed TSI AMR meters over a decade ago. Further, the amount of meter reading expenses is a ratemaking item, which is addressed in a rate case, and not a CPCN application.

The Attorney General's third recommendation addresses a 3 percent cost inflation factor in the estimated annual operation and maintenance costs for the proposed RF AMI system. The Attorney General recommends that cost recovery of operating the proposed RF AMI system be limited to actual cost incurred and that cost recovery be sought only in a rate case.²³ The Commission agrees that any recovery of costs to operate the new RF AMI system is to be included in a rate case. However, the Commission's filing requirements for a CPCN, as set forth in 807 KAR 5:001, Section 15(2)(f), require an applicant to include the estimated annual cost of operation of the proposed facility. Thus, Licking Valley included this information to comply with filing requirements and not as a ratemaking request.

The Attorney General's fourth recommendation is that Licking Valley implement a program to educate ratepayers regarding the new AMI meters because smart meter technology may be unfamiliar to Licking Valley's ratepayers.²⁴ The Attorney General asserts that educating ratepayers could alleviate ratepayer inquiries and reduce call-center traffic and costs.²⁵ Based on the fact that only about 20 percent of Licking Valley's customers have an AMI meter, the Attorney General's recommendation that

²³ *Id.* at 5–6.

²⁴ *Id.* at 6.

²⁵ *Id.*

ratepayers be offered information on AMI meters is reasonable. Licking Valley should develop educational materials on its new AMI metering system and utilize outreach methods such as the Rural Kentuckian magazine, bill inserts, and its web site to inform ratepayers.

The Attorney General's fifth recommendation is that Licking Valley replace meters only when an individual meter is in need of replacement, and that RF AMI meters be deployed only in those parts of the service territory where they are most needed.²⁶ As a basis for this recommendation, the Attorney General contends that, due to a weak economy in the service territory, Licking Valley's ratepayers should not bear the cost of immediate conversion to the new system.²⁷ The Commission believes that the incremental deployment is impractical, because it would require Licking Valley to operate and maintain three separate metering systems for the indefinite future with existing workforce levels.

The Attorney General's last recommendation is that the Commission develop a mechanism to prevent double recovery of costs.²⁸ Under the cost recovery proposed by Licking Valley, RF AMI meter costs would be recovered in base rates, with a duplicate recovery for pre-pay customers since the pre-pay plan surcharge includes the incremental cost of an AMI meter. The Commission shares the Attorney General's concerns regarding prevention of double cost recovery. As a ratemaking item, the potential for double cost recovery would be investigated as part of a rate case, and not

²⁶ *Id.* at 6–7.

²⁷ *Id.*

²⁸ *Id.* at 7.

a CPCN application, if Licking Valley requests to recover AMI meter costs in base rates and in the pre-pay monthly fee.

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that:

1. The RF AMI network, meters, and equipment proposed by Licking Valley as set forth in its application are necessary to provide adequate, reliable service to its customers, and Licking Valley's application for a CPCN to install an AMI system is reasonable and should be approved.

2. The proposed system costs are reasonable.

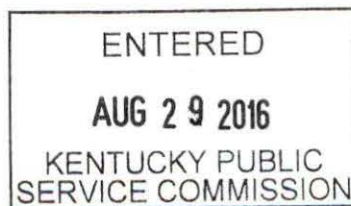
3. The system improvements that are proposed will not duplicate existing facilities and are needed to provide reliable service.

IT IS THEREFORE ORDERED that:

1. Licking Valley is granted a CPCN to purchase and install an AMI system as described in its application.

2. Licking Valley shall develop and implement a program to educate its ratepayers on the new AMI metering system.

For the Commission



ATTEST:


Executive Director

*Kerry K Howard
President & CEO
Licking Valley R.E.C.C.
P. O. Box 605
271 Main Street
West Liberty, KY 41472

*Larry Cook
Assistant Attorney General
Office of the Attorney General Utility & Rate
1024 Capital Center Drive
Suite 200
Frankfort, KENTUCKY 40601-8204

*Licking Valley R.E.C.C.
P. O. Box 605
271 Main Street
West Liberty, KY 41472

*Rebecca W Goodman
Assistant Attorney General
Office of the Attorney General Utility & Rate
1024 Capital Center Drive
Suite 200
Frankfort, KENTUCKY 40601-8204