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NEWS RELEASE

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PSC Cuts Cumberland Valley Electric Rate Hike Request

Orders personnel policy changes and financial review, including merger study

FRANKFORT, Ky. (Feb. 6, 2017) – The Kentucky Public Service Commission (PSC) today granted Cumberland Valley Electric a rate hike but reduced the amount requested by the electric distribution cooperative.

In an order issued today, the PSC directed Cumberland Valley to conduct a financial study that examines how the utility can reduce expenses and also directed Cumberland Valley to address the possibility of a merger with another electric utility as a possible way to improve its financial viability.

The PSC criticized Cumberland Valley for providing excessive benefits to its salaried employees and disallowed recovering a portion of the cost of those benefits from the utility's ratepayers.

The PSC also ordered Cumberland Valley to eliminate a policy which allows the hiring of relatives of employees.

With the rate increase granted by the PSC, a typical Cumberland Valley residential customer will see the average monthly electric bill rise by about \$5.40 (5.05 percent), from \$106.91 to \$112.31. That includes a \$3.27 increase in the monthly customer charge, from \$8.73 to \$12. The utility had proposed to increase the monthly residential service charge to \$14.10.

Cumberland Valley Electric serves about 23,600 customers in Bell, Clay, Harlan, Knox, Laurel, Leslie, Letcher, McCreary, and Whitley counties in southeast Kentucky. It is one of 16 electric distribution cooperatives that together own and purchase power from the East Kentucky Power Cooperative.

In a rate adjustment application filed in June 2016, Cumberland Valley sought to increase annual revenue by just under \$2 million, or about 4.75 percent. Cumberland Valley's application stated that the additional revenue was needed in order to cover increasing operational costs and to maintain the utility's financial stability, including its ability to meet the terms of its agreements with its lenders. The PSC approved an increase of \$1.7 million in annual revenues, or 4.08 percent.

The PSC found that the smaller increase it granted would still allow Cumberland Valley to meet its financial obligations, including satisfying the terms of its loan agreements.

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The PSC conducted a public evidentiary hearing on Cumberland Valley's application on Nov. 30, 2016. The only other party to the case was the Kentucky Office of Attorney General.

In reducing the rate increase, the PSC noted several concerns regarding excessive spending by Cumberland Valley and excluded certain costs from recovery through rates:

- Salaried employees received an across-the-board 3.5 percent pay increase, despite the PSC's order in a rate case two years ago that raised concerns about the manner in which the utility adjusts salaries. The PSC will require Cumberland Valley's future rate applications to include a formal study that examines not only compensation within the industry, but also across all business sectors in its service territory.
- Cumberland Valley has been providing its salaried employees with a defined benefit pension plan while also making contributions into personal retirement (401K) plans for employees. The PSC excluded the cost of the 401K contributions.
- Cumberland Valley currently pays all health insurance premiums for employees and their families, 100 percent of Medicare supplement costs for retirees and their dependents, all employee dental insurance premiums and 50 percent of family dental insurance premiums. The PSC reduced a portion of the health and dental insurance costs for salaried employees (union employee benefits are determined by a contract and were not at issue in the case) and ordered Cumberland Valley to revise its benefits package to require salaried employees to contribute to the cost of insurance for themselves and their families. The utility was given 60 days to devise a new contribution schedule and an additional 30 days to put it into effect.

The PSC also expressed concern that the utility's board of directors has routinely made exceptions to a policy that forbids the hiring of any person who is closer than a second cousin to a board member or any employee. The prohibition can be waived upon a recommendation by the utility's CEO.

The PSC noted four current Cumberland Valley employees are related to the utility's CEO and an additional 12 employees and a board member are related to other Cumberland Valley employees.

The PSC found that the nepotism policy exception "is especially disconcerting given the number of employees who are related to the CEO or a board member." As long as the exceptions are allowed to be made, there will always be "an appearance of a conflict, especially when those who make compensation decisions are related to employees who are subject to and may benefit from such decisions."

The PSC determined that the practice of allowing exceptions to the nepotism policy should end and gave Cumberland Valley 30 days to demonstrate that it has done so. The policy change is to apply only to future employees.

The PSC noted that economic conditions in Cumberland Valley's service territory were a major factor in the deterioration of the utility's finances. Revenue from commercial and large industrial customers has declined nearly 50 percent since 2011, due primarily to the deterioration of the local coal industry. Revenue from residential customers has also fallen, and the utility anticipates that the high unemployment in the region may lead to a continued decrease in the number of residential ratepayers in its system.

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“Given its financial condition, it is imperative that Cumberland Valley develop a robust, systematic plan to evaluate all costs in order to reduce its expenses and improve efficiency,” the PSC said in today’s order. That plan, which is due in six months, “should include a discussion of the advantages and disadvantages of a merger between Cumberland Valley and another electric utility, with the ultimate goal of achieving cost savings through economies of scale.”

Today’s order, a video of the evidentiary hearing, and other records in the case are available on the PSC website, psc.ky.gov. The case number is 2016-00169.

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in Kentucky and has approximately 75 employees.

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