

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF LICKING	)	
VALLEY RURAL ELECTRIC COOPERATIVE	)	CASE NO.
CORPORATION FOR A GENERAL RATE	)	2016-00174
INCREASE	)	

ORDER

On August 8, 2016, Licking Valley Rural Electric Cooperative Corporation (“Licking Valley”) filed an application seeking approval to adjust its base electric rates and to make changes to certain nonrecurring charges. Licking Valley proposes to adjust its base electric rates to increase its operating revenues by \$1,562,659 and increase its revenues from returned-check charges by \$4,029. By letter dated August 11, 2016, the Commission notified Licking Valley that its rate application was rejected because it contained certain filing deficiencies. On August 25, 2016, Licking Valley submitted information that partially cured the filing deficiencies. By letter dated August 30, 2016, the Commission notified Licking Valley that its application remained deficient. On August 31, 2016, Licking Valley submitted additional information to correct the outstanding filing deficiencies and the application was deemed filed as of that date. Finding that an investigation would be necessary to determine the reasonableness of Licking Valley’s proposed increase, the Commission issued an Order on September 15, 2016, suspending the effective date of the proposed rates for five months, up to and including February 27, 2017, and establishing a procedural schedule for the processing

of this matter. The procedural schedule provided for, among other things, a deadline for intervention requests, two rounds of discovery upon Licking Valley's application, and a formal evidentiary hearing. There are no intervenors in this proceeding. Licking Valley responded to four rounds of discovery from Commission Staff ("Staff") and one round of post-hearing requests for information issued by Staff. The formal evidentiary hearing was conducted on January 24, 2017. Licking Valley submitted responses to post-hearing information requests on February 6, 2017. The matter now stands submitted for a decision.

### BACKGROUND

Licking Valley is a member-owned rural electric cooperative corporation, organized under KRS Chapter 279. It is engaged in the distribution and sale of electric energy to approximately 17,316 member-consumers in Breathitt, Elliott, Lee, Magoffin, Menifee, Morgan, Rowan, and Wolfe counties, Kentucky.<sup>1</sup> Licking Valley does not own any electric generating facilities, but purchases its total power requirements from East Kentucky Power Cooperative, Inc.<sup>2</sup> Licking Valley's last general rate adjustment occurred in December 2009.<sup>3</sup>

### TEST PERIOD

Licking Valley proposed, and the Commission accepts, a historical 12-month period ended October 31, 2015, as the test period for determining the reasonableness

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<sup>1</sup> Annual Report of Licking Valley Rural Electric Cooperative Corporation to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2015 (filed Mar. 23, 2016), at 45 and 53.

<sup>2</sup> *Id.* at 40 and 43.

<sup>3</sup> Case No. 2009-00016, *Application of Licking Valley Rural Electric Cooperative Corporation for an Adjustment of Rates* (Ky. PSC Dec. 11, 2009).

of the proposed rates. In utilizing the historical test year, the Commission considers appropriate known and measurable changes.

## VALUATION

### Rate Base

Licking Valley determined a net investment rate base of \$36,300,796<sup>4</sup> based on the adjusted test-year-end value of plant in service and construction work in progress (“CWIP”), the 13-month average balances for materials and supplies and prepayments, plus a cash working capital allowance, minus the adjusted accumulated depreciation and the test-year-end level of customer advances for construction (“Customer Advances”).

The Commission concurs with Licking Valley’s proposed rate base with the exception that working capital has been adjusted to reflect the pro forma adjustments to operation and maintenance expenses. With this adjustment, Licking Valley’s net investment rate base for ratemaking purposes is as follows:

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<sup>4</sup> Application, Exhibit K at 2.

Utility Plant in Service	\$ 67,546,087
CWIP	<u>1,236,648</u>
Total Utility Plant	<u>68,782,735</u>
Add:	
Materials and Supplies	518,267
Prepayments	125,769
Working Capital	<u>879,088</u>
Total Additions	<u>1,004,857</u>
Deduct:	
Accumulated Depreciation	(33,744,806)
Customer Advances for Construction	<u>(282,732)</u>
Total Deductions	<u>(34,027,538)</u>
Net Investment Rate Base	<u>\$ 35,760,054</u>

#### Capitalization and Capital Structure

The Commission finds that Licking Valley's capital structure at test-year-end was, for ratemaking purposes, \$42,863,578.<sup>5</sup> This capital structure consisted of \$16,996,483 in equity and \$25,867,095 in long-term debt.<sup>6</sup> The Commission excluded generation and transmission capital credits ("GTCCs") in the amount of \$12,635,508.<sup>7</sup> Using this capital structure, Licking Valley's year-end ratio of equity to total capitalization was 39.65 percent.<sup>8</sup>

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<sup>5</sup> Application, Exhibit K at 7.

<sup>6</sup> *Id.*

<sup>7</sup> *Id.*

<sup>8</sup> \$16,996,483 ÷ \$42,863,578 = 39.65%.

## REVENUE AND EXPENSES

Licking Valley proposes 16 adjustments to revenues and expenses to reflect current and expected operating conditions. The Commission finds that 11 of the adjustments proposed by Licking Valley are reasonable and should be accepted without change. Those adjustments are shown in the following table:

<u>Description</u>	<u>Adjustments</u>
Normalize Revenues	\$ (1,704,218)
Normalize Purchased Power Costs	\$ (1,597,755)
Depreciation	\$ 40,011
Property Tax	\$ 30,037
Interest on Long-Term Debt	\$ (3,672)
Donations	\$ (25,737)
Directors	\$ (2,142)
Annual and Miscellaneous	\$ (40,117)
G&T Capital Credits	\$ (1,394,546)
Additional Revenue	\$ (10,006)
Returned Check Charge	\$ 4,029

The Commission finds that the remaining proposed adjustments should be modified as discussed in more detail below.

### Salaries & Wages

Licking Valley proposed an adjustment of \$106,399<sup>9</sup> to normalize total wages and salaries, of which \$32,912 was capitalized<sup>10</sup> and \$73,487<sup>11</sup> was expensed. Licking Valley's calculation assumes that all of its 44 full-time employees (three Salaried and 41 Hourly) worked 2,080 hours in the test year and normalized for the 2 percent wage

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<sup>9</sup> Application, Exhibit 1.

<sup>10</sup> The capitalized portion reflects actual capitalized costs and payroll costs allocated to other accounts. The other accounts include amounts assigned to clearing, stores, transportation, and employee sick leave. Unless otherwise noted, references in this Order to "capitalized" reflect this combination of actual capitalized costs and other costs.

<sup>11</sup> Application, Exhibit S, Adjustment 1.

increase that was granted by Licking Valley's Board of Directors on October 31, 2015.<sup>12</sup> Licking Valley used the actual hours worked during the test year to calculate the salaries for its part-time employees.<sup>13</sup> The actual test-year overtime hours were multiplied by 1.5 times the test-year-end wage rates for hourly employees to calculate the normalized test-year overtime wages.<sup>14</sup> Licking Valley also included payment for vacation/sick leave in excess of 75 days, and on-call dispatching pay for four full-time employees.<sup>15</sup>

The Commission finds that Licking Valley's adjustment is inconsistent in that it used the actual test-year hours in calculating overtime wages and salaries for part-time employees, while assuming that each full-time employee worked 2,080 regular hours in the test year. This assumption is incorrect. During the test year, seven employees, or 16 percent of its 44 full-time employees, worked less than 2,080 annual hours. The table below shows that historically a significant number of Licking Valley's full-time employees work less than 2,080 regular hours in a year. Given this historical trend, the Commission finds that the actual regular test-year hours worked by Licking Valley's full-time employees should be used in the calculation of pro forma salaries. The Commission recalculated the proposed adjustment to salaries and wages and decreased the adjustment from \$73,487 to \$66,069.

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<sup>12</sup> Application, Exhibit 1.

<sup>13</sup> *Id.*

<sup>14</sup> *Id.*

<sup>15</sup> *Id.*

Full-time Employees Working Less than 2,080 Annual Hours<sup>16</sup>

<u>2010</u> 6	<u>2011</u> 8	<u>2012</u> 3	<u>2013</u> 6	<u>2014</u> 4	<u>2015</u> 4
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The Commission is concerned about the lack of information to evaluate salaries and wages paid to all Licking Valley employees. According to Licking Valley, its “pay structure has been developed over time based on knowledge of employee’s job responsibilities, duties, and abilities.”<sup>17</sup> Licking Valley has not conducted a study or analysis to show that its current pay structure is reasonable or relevant in today’s market. Licking Valley provided a limited analysis comparing its linemen’s wages to the linemen wage rates being paid in the West Liberty area and concluded, “Our hourly wage rates are very reasonable, and less than the prevailing hourly wage rate.”<sup>18</sup>

Licking Valley was unable to provide salary and wage information specific to its service area for all of its employee positions. The Commission has begun placing more emphasis on evaluating salary and benefits provided by electric cooperatives as they relate to competitiveness in a broad marketplace, as opposed to wage and salary studies limited exclusively to electric cooperatives, electric utilities, or other regulated utility companies.<sup>19</sup> In its next rate application, Licking Valley will be required to include

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<sup>16</sup> Licking Valley’s responses to Commission Staff’s Third Request for Information (“Staff’s Third Request”), Item 7.

<sup>17</sup> *Id.*, Item 8.a.

<sup>18</sup> Licking Valley’s responses to Commission Staff’s Second Request for Information (“Staff’s Second Request”), Item 19.

<sup>19</sup> See Case No. 2015-00312, *Application of Kenergy Corp. for a General Adjustment in Rates* (Ky. PSC Sept. 15, 2016), at 15, and Case No. 2016-00169, *Application of Licking Valley Electric, Inc. for a General Adjustment of Rates* (Ky. PSC Feb. 16, 2017) at 8.

a formal study that provides local wage and benefit information for Licking Valley's operating area and to include state data where available.

### Payroll Taxes

Licking Valley proposed to increase its payroll taxes by \$11,751,<sup>20</sup> based on the proposed normalization of wages and salaries and reflecting the Federal Insurance Contribution Act base wage limit of \$118,500 for 2015, and federal and state unemployment wage limits and rates in effect at the test-year-end. Of this amount, \$3,635 was capitalized and \$8,116 was expensed.<sup>21</sup>

Licking Valley's proposed payroll tax adjustment reflects the difference between pro forma and actual payroll tax expense of \$222,753 and \$211,002, respectively.<sup>22</sup> However, in its work papers, Licking Valley calculated a pro forma payroll tax expense of \$224,784,<sup>23</sup> which is \$2,031<sup>24</sup> greater than the pro forma amount used in the proposed adjustment. The Commission recalculated the pro forma adjustment to payroll taxes based on the salaries and wages expense determined reasonable herein and increased the payroll tax adjustment from \$8,116 to \$8,950.

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<sup>20</sup> Application, Exhibit 2.

<sup>21</sup> *Id.*

<sup>22</sup> *Id.*

<sup>23</sup> *Id.* \$176,229 (FICA) + \$41,215 (Medicare) + \$2,520 (Federal Unemployment) + \$4,820 (State Unemployment) = \$224,784.

<sup>24</sup> \$224,784 (Pro Forma Payroll Taxes Workpaper) - \$222,753 (Pro Forma Payroll Taxes Adjustment) = \$2,031.



## Retirement

Licking Valley proposed to increase its retirement contribution costs by \$10,229,<sup>25</sup> based on the proposed normalization of wages and salaries. Of this amount, \$3,164 was capitalized and \$7,065 was expensed.<sup>26</sup> Licking Valley participates in the National Rural Electric Cooperative Association's Retirement security program 401(k) defined-contribution plan for all of its full-time employees.<sup>27</sup> Licking Valley is required to contribute 11 percent of each employee's base compensation, and each employee is required to match at least 4 percent, with an election to contribute more.<sup>28</sup> The Commission recalculated the pro forma adjustment to 401(k) retirement expense based upon the salaries and wages expense determined reasonable herein and decreased the retirement adjustment from \$7,065 to \$6,248.

## Employee Contribution for Health Insurance

Licking Valley's employee health insurance plan "provides for Single, Family, and Dependent only coverage for both Medical and Prescription Drug."<sup>29</sup> Licking Valley pays the monthly premiums for its employees without dependents and requires employees with dependents to contribute 10.37 percent toward the premium.<sup>30</sup> Licking

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<sup>25</sup> Application, Exhibit 6.

<sup>26</sup> *Id.*

<sup>27</sup> *Id.*

<sup>28</sup> Licking Valley's responses to Commission's January 19, 2017 Order, Item 2, National Rural Electric Cooperative Association Adoption Agreement "A" 401(k) Pension Plan, 7. Contributions, c. Employer Matching Contribution.

<sup>29</sup> Licking Valley's responses to the Commission Staff's Fourth Request for Information ("Staff's Fourth Request"), Item 2.

<sup>30</sup> Licking Valley's responses to Commission's January 19, 2017 Order, Item 3, Board of Directors Policies and Procedures Manual, Policy Number 213, Subject: Employees Major Medical Insurance Plan, Practices 1, Premium.

Valley also provides life insurance coverage of \$50,000 for each employee through the National Rural Electric Cooperative Association.<sup>31</sup>

The Commission expects Licking Valley to increase its efforts to reign in expenses for employee benefits by establishing a policy of limiting Licking Valley's contribution to health insurance premiums and requiring that all employees pay some portion of the premium. The Commission finds that Licking Valley should limit its contributions to its employees' health plans to percentages more in line with those of other businesses in order to reduce its expenses. Accordingly, the Commission will for ratemaking purposes adjust test-year health expense for all employees based on national average employee contribution rates.

The Commission has reduced health insurance expense \$130,935, based on a 32 percent employee contribution rate for family coverage and 21 percent employee contribution rate for single coverage.<sup>32</sup> The Commission will accept the test-year expense for life insurance for full-time employees in this case. However, in its next rate case filing, Licking Valley's request for cooperative paid life insurance should be capped at the lesser of an employee's annual salary or \$50,000.

### Professional Services

Licking Valley proposes to reduce test-year professional services expense by \$493 to remove items not normally included for ratemaking purposes.<sup>33</sup> The

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<sup>31</sup> Licking Valley's responses to the Staff's Fourth Request, Item 2.

<sup>32</sup> Bureau of Labor Statistics, Healthcare Benefits, March 2016, Table 10, private industry workers. (<https://www.bls.gov/ncs/ebs/benefits/2016/ownership/private/table10a.pdf>)

<sup>33</sup> Application, Exhibit 8.

Commission agrees with the reductions proposed by Licking Valley. However, the Commission has identified an additional adjustment that should be made.

Licking Valley included in its test-year professional services expense payments to the Kentucky Association of Electric Cooperatives (“KAEC”) in the amount of \$15,897 for Kentucky sales tax issues.<sup>34</sup> “KAEC coordinated with each of the cooperatives in Kentucky to share the legal costs of the sales tax audit between Warren Rural Electric and the Kentucky Revenue Cabinet . . . .”<sup>35</sup> Licking Valley agreed that the sales tax audit allocation should be removed from professional services expense.<sup>36</sup> Adding this additional item to Licking Valley’s adjustment of \$493, the Commission has reduced miscellaneous expenses by a total of \$16,390.

#### Rate Case Expense

Licking Valley estimated its rate case expense at \$90,000.<sup>37</sup> It proposed to recover this expense through a three-year amortization. This estimate did not include in-house labor.<sup>38</sup> As of December 31, 2016, Licking Valley had expended \$45,337<sup>39</sup> to prepare and process this rate case. The Commission finds that a three-year amortization of these expenses is reasonable and will allow an increase in operating expense of \$16,138 to reflect the first year of the amortization for ratemaking purposes.

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<sup>34</sup> *Id.*

<sup>35</sup> Licking Valley’s responses to Staff’s Second Request, Item 26.b.

<sup>36</sup> Licking Valley’s response to Staff’s Third Request, Items 11.b. and 12.

<sup>37</sup> Licking Valley’s responses to Staff’s Second Request, Item 9.

<sup>38</sup> Application, Exhibit 11.

<sup>39</sup> Response to Commission Staff’s Post-Hearing Request for Information (“Staff’s Post-Hearing Request”), Item 7.

## Pro Forma Adjustments Summary

The effect of the pro forma adjustments on Licking Valley's net income is as follows:

	<u>Actual Test Year</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma Test Year</u>
Operating Revenues	\$ 28,157,344	\$ (1,710,195)	\$ 26,447,149
Cost of Electric Service:			
Operating Expenses	26,350,655	(1,657,826)	24,692,829
Depreciation	2,189,646	37,915	2,227,561
Taxes - other	41,214	0	41,214
Interest on long-term debt	430,628	(3,672)	426,956
Interest expense - other	6,939	0	6,939
Other deductions	25,737	(25,737)	0
Total Cost of Electric Service	<u>29,044,819</u>	<u>(1,649,320)</u>	<u>27,395,499</u>
Utility Operating Margins	(887,475)	(60,875)	(948,350)
Non-operating margins, interest	29,888	0	29,888
Patronage capital credits	1,457,499	(1,394,546)	62,953
Net Income	<u>\$ 599,912</u>	<u>\$ (1,455,421)</u>	<u>\$ (855,509)</u>

## REVENUE REQUIREMENTS

The actual rate of return earned on Licking Valley's net investment rate base established for the test year was 2.3 percent.<sup>40</sup> Licking Valley requests rates that would result in a Times Interest Earned Ratio ("TIER") excluding GTCCs of 2.25X<sup>41</sup> and a rate of return of 2.65 percent<sup>42</sup> on its proposed rate base of \$36,300,796. Licking Valley proposes an increase in base electric rates of \$1,562,659 to achieve a 2.25X TIER excluding GTCCs.

<sup>40</sup> Application, Exhibit K, at 3.

<sup>41</sup> Direct Testimony of James R. Adkins at 5.

<sup>42</sup>  $\$536,518$  (Requested Margin) +  $\$426,956$  (Normalized Interest on Long-Term Debt) =  $\$963,474 \div \$36,300,796$  (Net Investment Rate Base) = 2.65%.

Licking Valley's actual TIER excluding GTCCs for the test period was (0.85)X and was 2.46X and 0.85X for the calendar years 2013 and 2014, respectively.<sup>43</sup> After taking into consideration pro forma adjustments, Licking Valley would achieve a (1.41)X TIER excluding GTCCs for the test period without an increase in revenues.<sup>44</sup> Licking Valley's Operating Times Interest Earned Ratio ("OTIER") for the test period was (1.06)X.<sup>45</sup> Licking Valley requests this rate adjustment in order to meet the terms of its mortgage agreement and to maintain its financial stability and integrity.<sup>46</sup>

The TIER method for determining margins has been the approach used by the Commission in electric distribution cooperative rate cases. Licking Valley stated the Commission has normally authorized a TIER of 2.00X, but has authorized a higher TIER in the most recent rate application of South Kentucky RECC.<sup>47</sup> Licking Valley is requesting a 2.25X TIER because of its deteriorating equity capitalization ratio and extremely low interest expense.<sup>48</sup>

Licking Valley's mortgage agreements with the Rural Utilities Services ("RUS") and National Utilities Cooperative Finance Corporation require Licking Valley to maintain a net TIER of 1.25X, an OTIER of 1.1X and an equity to total asset ratio with G&T patronage capital of 40 percent.<sup>49</sup> The Commission notes that Licking Valley's

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<sup>43</sup> *Id.* at 6.

<sup>44</sup> *Id.*, Exhibit S.

<sup>45</sup> Licking Valley's responses to Staff's Second Request, Item 8.c.

<sup>46</sup> Application at 2.

<sup>47</sup> Case No. 2011-00096, *Application of South Kentucky Rural Electric Cooperative Corporation for an Adjustment of Rates* (Ky. PSC May 11, 2012).

<sup>48</sup> Direct Testimony of James R. Adkins ("Adkins Testimony") at 5.

<sup>49</sup> Transcript of Evidence at 9:53:20 – 9:53:40 and 10:12:03 – 10:12:21.

equity capitalization ratio without G&T patronage capital did fluctuate from 43 percent to 45 percent in the calendar years 2010 through 2014 and dropped to 40 percent in the test year.<sup>50</sup> However, Licking Valley's equity to total asset ratio of 48 percent exceeded the RUS requirement and its test year TIER of 2.39X was greater than the required 1.25X.<sup>51</sup> The only RUS mortgage requirement that Licking Valley did not meet was the OTIER which was (0.85)X in the test year.<sup>52</sup>

For the above reasons the Commission finds that Licking Valley has not justified the use of a 2.25X TIER in calculating a reasonable revenue requirement. Based upon the pro forma adjustments found reasonable herein, the Commission has determined that an increase in Licking Valley's revenues from base rates of \$1,282,465 would result in a TIER of 2.00X. This additional revenue should produce net income of \$426,956. The Commission has determined that the above increase in revenues should result in an OTIER of 1.78X, which should allow Licking Valley to meet its mortgage requirements and service its mortgage debts. Based on the net investment rate base of \$35,760,054 found reasonable herein, this additional revenue should result in a rate of return on rate base of 2.39 percent.<sup>53</sup>

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<sup>50</sup> Application, Exhibit K at 7.

<sup>51</sup> *Id.* at 6.

<sup>52</sup> *Id.*

<sup>53</sup>  $\$426,956$  (Granted Margin) +  $\$426,956$  (Normalized Interest on Long-Term Debt) =  $\$853,912 \div$   $\$35,760,054$  (Net Investment Rate Base) = 2.39%.

## PRICING AND TARIFF ISSUES

### Cost of Service

Licking Valley filed a fully allocated cost-of-service study ("COSS") in order to determine the cost to serve each customer class and the amount of revenue to be allocated to each customer class. Having reviewed Licking Valley's COSS, the Commission finds it to be acceptable for use as a guide in allocating the revenue increase granted herein.

### Revenue Allocation

Licking Valley states that, based on the results of the COSS, the following rate classes are not providing sufficient revenue to cover their revenue requirements: Schedule A - Residential, Farm, Small Community Hall and Church Service; Schedule B - Commercial and Small Power Service; and Schedule SL - Outdoor Lighting. However, Licking Valley proposes to allocate the increase to all of its rate classes in order to keep the overall increase to Schedule A to a reasonable level.

### Rate Design

Licking Valley is proposing to allocate the proposed increase to all its rate classes with the majority of the increase being placed on the customer charge. Licking Valley states that according to its COSS, the current customer charges are insufficient to cover the consumer-related costs incurred to provide service.<sup>54</sup>

Upon consideration of this issue, the Commission concludes that, for an electric cooperative that is strictly a distribution utility, there is merit to the argument that there is a need for a means to guard against the revenue erosion that often occurs due to the decrease in sales volumes that accompanies poor regional economics, changes in

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<sup>54</sup> Application, Adkins Testimony, page 11 of 15.

weather patterns, and the implementation or expansion of demand-side management and energy-efficiency programs. However, the Commission believes that Licking Valley's proposed 61 percent increase in the residential customer charge from \$9.32 to \$15.00 does not support the general principle of gradualism. For this reason, the Commission will approve a customer charge for the Residential rate class of \$14.00, an increase of 50 percent. All other proposed customer charges are approved. The table below shows the current, proposed, and approved customer charges along with the amounts supported by the COSS.

	<u>Current</u>	<u>Proposed</u>	<u>Approved</u>	<u>COSS Results</u>
Residential, Schools, and Churches	\$ 9.32	\$ 15.00	\$ 14.00	\$ 28.38
Commercial and Small Power	\$ 20.71	\$ 28.75	\$ 28.75	\$ 29.41
Large Power Service	\$ 50.94	\$ 71.55	\$ 71.55	\$ 81.04
Large Power Rate	\$ 101.89	\$ 110.00	\$ 110.00	\$ 166.94

The Commission approves the proposed increase to the energy charge for the Commercial and Small Power rate class as well as the proposed increase to Security Lighting. The energy charge for the Residential class is increased also, but this increase is slightly less than what was proposed. Based on Licking Valley's average residential usage of 985 kilowatt-hours ("kWh"), the average bill for the residential customers will increase by \$5.66, from \$101.47 to \$107.13, or 5.6 percent.

Licking Valley is proposing to lower its monthly prepay metering program fee from \$5 to \$3.60. The prepay program fee is comprised of, among other things, the incremental cost of an AMI meter with a disconnect feature. In Case No. 2016-00077, the Commission approved Licking Valley's request to install a new AMI metering system which will provide every residential customer with a meter containing a disconnect



feature.<sup>55</sup> Licking Valley is now proposing to remove the meter and associated costs from its approved monthly prepay program fee, thus reducing the monthly fee by \$1.40. The Commission has reviewed Licking valley's proposal and finds it to be reasonable.

#### Nonrecurring Charges

Licking Valley proposed an increase in its returned-check charge from \$13 to \$30.<sup>56</sup> The Commission has reviewed the supporting calculation and finds that the increase in the returned check charge should be approved. Approval of this increase will result in an additional \$4,029 in miscellaneous service revenues for Licking Valley.

#### SUMMARY

The Commission, after consideration of the evidence of record and being otherwise sufficiently advised, finds that:

1. The rates proposed by Licking Valley would produce revenues in excess of the amount found reasonable herein and should be denied.
2. The rates set forth in the Appendix to this Order are the fair, just, and reasonable rates for Licking Valley to charge for service rendered on and after the date of this Order and should be approved.
3. The rate of return and TIER granted herein will provide for Licking Valley's financial obligations.
4. As provided previously in this Order, in its next rate application Licking Valley will be required to include a formal study that provides local wage and benefit

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<sup>55</sup> Case No. 2016-00077, *Application of Licking Valley Rural Electric Cooperative Corporation for an Order Issuing a Certificate of Public Convenience and Necessity* (Ky. PSC Jan. 10, 2017).

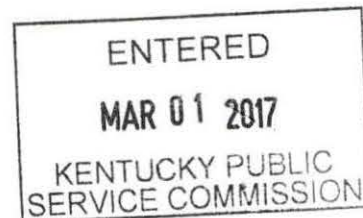
<sup>56</sup> Application, Exhibit 16.

information for the area in which Licking Valley operates, and the study must include state data where available.

IT IS THEREFORE ORDERED that:

1. The rates proposed by Licking Valley are denied.
2. The rates set forth in the Appendix to this Order are approved for services rendered by Licking Valley on and after the date of this Order.
3. Within 20 days of the date of this Order, Licking Valley shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and reflecting their effective date and that they were authorized by this Order.
4. In its next rate application, Licking Valley shall perform a formal study that provides local wage and benefit information for the area in which Licking Valley operates, and the study shall include state data where available.

By the Commission



ATTEST:

  
Executive Director *for*

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2016-00174 DATED **MAR 01 2017**

The following rates and charges are prescribed for the customers in the area serviced by Licking Valley Rural Electric Cooperative Corporation. All other rates and charges not specifically mentioned in this Order shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

SCHEDULE A  
RESIDENTIAL, FARM, SMALL COMMUNITY HALL AND CHURCH SERVICE

Customer Charge	\$ 14.00
Energy Charge per kWh	\$ 0.094542
Prepay Charge	\$ 3.60

SCHEDULE B  
COMMERCIAL AND SMALL POWER SERVICE

Customer Charge	\$ 28.75
Energy Charge per kWh	\$ 0.830000

SCHEDULE LP  
LARGE POWER SERVICE

Customer charge	\$ 71.55
Demand Charge per kW	\$ 7.36
Energy Charge per kWh	\$ 0.068887

SCHEDULE LPR  
LARGE POWER RATE

Customer Charge	\$ 110.00
Demand Charge per kW	\$ 6.91
Energy Charge per kWh	\$ 0.060439

SCHEDULE SL  
SECURITY LIGHTS AND RURAL LIGHTING

Monthly Rate:

175 Watt MV	\$ 10.52
100 Watt Halide	\$ 10.52
250 Watt Halide	\$ 16.22
400 Watt Halide	\$ 22.38
25' Pole	\$ 3.06
30' Pole	\$ 3.54
68 Watt LED Light	\$ 9.40
108 Watt LED Light	\$ 11.28
202 Watt LED Light	\$ 17.81

NONRECURRING CHARGES

Returned Check Charge	\$ 30.00
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