

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE
COMMISSION

IN THE MATTER OF:

In the Matter of:

THE APPLICATION OF LICKING VALLEY)
RURAL ELECTRIC COOPERATIVE)
CORPORATION FOR AN ORDER)
ISSUING A CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY)

Case No. 2016-00077

ATTORNEY GENERAL'S FINAL COMMENTS

The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, submits the following Final Comments in the above-styled matter. With these Comments, the Attorney General states his belief that this matter can be submitted for a ruling from the Commission upon the record as it now stands, without the necessity of an evidentiary hearing.

Licking Valley Rural Electric Cooperative Corporation ["LVRECC" or "the company"]'s application in the instant matter seeks expedited permission to replace all of the company's approximately 13,200 AMR (TS1) meters and 3,800 AMI (TS2),¹ with an AMI meter controlled by a radio frequency module (AMI/RF). The estimated cost of the program is \$4.423 million. LVRECC provides the following rationale for this replacement program: (a) to provide remote connect/disconnect capability;² (b) expand its DSM program portfolio;³ (c) provide the capability to utilize a SCADA system;⁴ (d) load shaving;⁵

¹ Response to PSC 1-2; see also Staff Memorandum dated June 3, 2016, p. 1..

² Response to PSC 1-8.

³ Specifically, LVRECC would be able to offer EKPC's Air Conditioning & Water Heater load control DSM program. Additionally, the company states that although pre-paid metering is not specifically a DSM program, studies show a 10%-15% reduction in usage for those who are on pre-paid metering. Response to PSC 2-1(b).

⁴ Response to AG 1-21.

⁵ Application Ex. 5, p. 2 of 2.

(e) voltage reduction;⁶ (f) to make its pre-pay program available to all customers;⁷ (g) the system will allow potential future integration of the “SmartHub and iVUE” systems offered by the National Information Solutions Cooperative;⁸ and (h) it is almost out of TS2 meters.⁹

The TS1 system provides AMR metering (one-way communication from the meter to the company), while TS2 provides AMI metering (two-way communication back-and-forth between the meter and the company) and a remote disconnect feature.¹⁰ Both the TS1 and TS2 meters utilize Power Line Carrier (PLC) to transmit communications along LVRECC’s power lines, and both send readings every 27 hours.¹¹ The TS1 meters are 90% depreciated, while the TS2 meters are 50% depreciated.¹²

Of LVRECC’s ten electric substations, only five are outfitted with technology allowing customers served by those respective substations to utilize TS2 meters. Overall, LVRECC stated that it has had “good experience” with the PLC system; however, it can frequently slow-down due to “noise” carried over the power lines which hinders and interrupts communication between LVRECC and the meters.¹³ The presence of such “noise” on the PLC system, which can be caused by many factors such as landscaping or rain, can extend the length of time for a reading beyond the normal 27 hours to as long as three days.

LVRECC states that after reviewing various types of metering systems and their associated infrastructures, it concluded that the AMI/RF metering system would best meet

⁶ Application Ex. 7, p. 1.

⁷ Response to PSC 1-8.

⁸ Response to PSC 1-4, PSC 1-8. If LVRECC ever adopts these systems, they would allow customers to view power usage on 15-minute intervals, and pay bills on-line, according to the company.

⁹ Response to PSC 2-2.

¹⁰ Staff Memorandum dated June 3, 2016, p. 1.

¹¹ *Id.*

¹² Response to PSC 1-6.

¹³ Staff Memorandum dated June 3, 2016, p. 1.

its needs because: (a) that system would provide two-way communication over radio frequencies, without having the problems associated with the PLC system; (b) updates to the AMI meters' software and firmware can be provided over the RF mesh network;¹⁴ (c) its supplier, Landis + Gyr, which was selected as a result of an RFP process,¹⁵ has not sold a PLC system in six years,¹⁶ and it will no longer provide support for TS2 systems;¹⁷ and (d) due to the fact that PJM is now requiring G&T's such as EKPC to provide hourly data in the event of direct load control events, the AMI/RF system will allow LVRECC to help EKPC meet this requirement.¹⁸ Finally, LVRECC states that if the program is approved, it will continue to operate the existing TS2 PLC system until the AMI/RF program is completed, which it expects will take 2-3 years.¹⁹

As one of the primary justifications for the replacement program, LVRECC states that the manufacturer of the TS2 meters has allegedly stated that it will no longer support the PLC type of network communications. However, LVRECC has also stated in the record that with regard to both the PLC and RF systems, "It seems either would work . . . while there is still plenty of support for PLC systems, there seemed to be more movement in the direction of the RF systems. Meters and equipment were more readily available for RF."²⁰ Although industry may be moving more in the direction of RF systems, it appears LVRECC thus acknowledges that it is still possible to obtain manufacturer support for an updated PLC system.

¹⁴ Staff Memorandum dated June 3, 2016, p. 1.

¹⁵ Response to PSC 1-4.

¹⁶ Response to PSC 2-2, and Exhibit 1 attached thereto.

¹⁷ Responses to AG 2-1 and PSC 1-1, PSC 1-2 (g), and Application Exhibit 1, p. 1.

¹⁸ Response to AG 2-1.

¹⁹ Response to PSC 1-3.

²⁰ Response to Attorney General's Initial Data Requests, Exhibit 5, p. 3 of 9 ("AMI Study") attached thereto. The term "PLC systems," by definition appears to include TS1 and TS2 systems, since LVRECC utilizes its PLC system for both TS1 and TS2 meters.

Recommendations

The Attorney General offers the following recommendations:

a. Alternatives to AMI/RF Meter System

The Attorney General believes that LVRECC has supplied inconsistent evidence into the record regarding which type(s) of metering systems would not only work in its system, but also which ones could be supported over the projected life spans of those systems. On the one hand, the company states that TS2 will no longer be supported by the manufacturer,²¹ but on the other hand it states that ample support for TS2 continues.²² Therefore, a factual issue exists with regard to whether Landys + Gyr, or any other meter manufacturer can both: (a) provide an adequate supply of TS2 meters to meet LVRECC's needs; and if so, (b) provide the technical support necessary to meet LVRECC's needs for TS2 meters for the entire average life span of a TS2 meter, which based upon information LVRECC supplied is 15 years.

The Attorney General believes that given this ambiguity, as well as the complexity of the relevant issues and their importance in this case, it would be helpful to the parties and the Commission for the Commission's engineering staff to develop a recommendation or report for the public record regarding the type of metering system(s) that could be supported in LVRECC's service territory, and which one appears to be the least-cost solution to meet LVRECC's needs.

If the response to both parts of the two-part inquiry set forth in the paragraph above is in the affirmative, then the Attorney General believes the Commission should

²¹ Responses to AG 2-1 and PSC 1-1, PSC 1-2 (g), and Application Exhibit 1, p. 1.

²² Response to Attorney General's Initial Data Requests, Exhibit 5, p. 3 of 9 ("AMI Study") attached thereto.

approve a CPCN for the purchase of new TS2 meters as long as it can be established that doing so would prove to be the least-cost alternative for LVRECC's ratepayers.

Alternatively, if the Commission concludes that one or both parts of this two-pronged inquiry cannot be established, then it appears there is no other choice but to approve LVRECC's CPCN application for the AMI/RF replacement program. The Attorney General believes it would be counterproductive to straddle the company's ratepayers with stranded costs, which very well could result if an adequate supply of TS2 meters cannot be obtained, and/or if adequate technical support cannot be procured during the lifespan of the TS2 meters.

b. Savings From Implementation of New Metering System

In response to PSC 2-10 and PSC 1-12, LVRECC states that it will not be eliminating any meter reading positions as a result of the system-wide conversion to AMI/RF meters which it seeks in the instant application. This begs the question of why these employees would be retained if there is no need for the services associated with their position. The Attorney General finds it difficult to believe there would be no decline in meter reading expense if the company is awarded a CPCN for system-wide AMI deployment. Accordingly, the Attorney General recommends that in the event the Commission approves the CPCN as applied for, it should also order LVRECC to reduce its meter reading expenses by an appropriate amount.

c. 3% O&M Cost Inflation Factor

In the instant application, LVRECC seeks a three percent (3%) cost adder for the ostensible purpose of covering cost inflation which it expects will be associated with operating its requested AMI/RF system. Notably, LVRECC failed to file a study supporting

its unilateral conclusion regarding O&M cost inflation. The Attorney General believes it is highly inappropriate to seek base rate increases through the means of a CPCN filing. Moreover, any potential approval of a pre-determined level of cost inflation: (a) assumes there will be any cost inflation at all; and (b) would dis-incentivize the company from operating its system in a prudent manner. As an alternative, the Attorney General strongly recommends that any potential increase in cost inflation for which LVRECC might seek cost recovery in the future operation of its metering system should be limited solely to *actual* costs incurred, and not *estimated* costs such as LVRECC seeks in its application. Finally, any such cost recovery should be sought only in a base rate case.

d. Ratepayer Education Plan

In response to AG 1-29, LVRECC acknowledged that it had not planned on implementing any sort of program designed to educate ratepayers regarding new meters and the benefits they would bring. The Attorney General recommends that in the event the Commission approves the CPCN, whether as-filed or with modifications, it order the company to implement such a program. Smart meters such as the AMI/RF system, and even the older TS2 meters, employ higher technology than many consumers have not encountered to date. Such a plan would also inure to the benefit of the company by alleviating many ratepayer inquiries before they occur, thus reducing call center costs.

e. Deployment Plan

The Attorney General believes that LVRECC's ratepayers, already suffering with a poor economy, should not be made to bear the weight of a complete and immediate conversion to an AMI/RF system. The record is devoid of any detailed cost-benefit analysis to indicate that the benefits of a system-wide conversion would out-weigh the costs. Given

that fact, the Commission has no other choice but to conclude that costs of the proposed system-wide conversion will outweigh any potential benefits. Instead of an immediate system-wide conversion, it makes more sense both for the company, and its ratepayers to adopt a more gradual plan to replace the meters only when each individual meter is in need of replacement.

Finally, the initial deployments of smart meters should occur first in those parts of LVRECC's service territory where they are most needed, and should be carried out in a manner designed to mitigate and minimize the potential for stranded costs.

f. Prevent Double Recovery of Costs Regarding Pre-Pay Program

As set forth in Staff's Memorandum dated June 3, 2016, LVRECC's previously-approved pre-pay plan requires participants in that program to pay a \$5 monthly fee which includes the incremental cost of an AMI meter with a disconnect feature. Thus if the Commission in any manner approves the instant application, pre-pay participants would double-pay the cost of the AMI meter – once through the pre-pay tariff, and a second time for the costs of the system-wide AMI deployment to be assessed to each ratepayer in base rates. Therefore, the Attorney General urges the Commission to either develop a mechanism in LVRECC's forthcoming base rate case to prevent the double recovery, or to order LVRECC to accordingly revise its pre-pay tariffs.

Respectfully submitted,

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Certificate of Service and Filing

Counsel certifies that an original and six photocopies of the foregoing were served and filed by hand delivery to Aaron D. Greenwell, Acting Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; counsel further states that true and accurate copies of the foregoing were mailed via First Class U.S. Mail, postage pre-paid, to:

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