

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

ELECTRONIC APPLICATION OF LICKING VALLEY)	
RURAL ELECTRIC COOPERATIVE CORPORATION)	
FOR A GENERAL ADJUSTMENT OF RATES)	CASE NO.
PURSUANT TO STREAMLINED PROCEDURE)	2020-00338
PILOT PROGRAM ESTABLISHED IN CASE NO.)	
2018-00407)	

LICKING VALLEY RECC’S MOTION FOR REHEARING

Comes Licking Valley Rural Electric Cooperative Corporation (Licking Valley), by and through counsel, pursuant to KRS 278.400 and other applicable law, and does hereby respectfully request the Kentucky Public Service Commission (Commission) to grant rehearing and vacate and amend its April 8, 2021 Order such that Licking Valley’s monthly residential customer charge will be increased consistent with the request made in its original Application, and alter the requirement that Licking Valley file a full rate case within one year to a period of three years, and in support thereof respectfully states as follows:

I. BACKGROUND

On December 18, 2020, Licking Valley filed an application seeking a general adjustment in its rates, with a proposed effective date of January 18, 2021.¹ Licking Valley requested an overall increase of 2.21 percent, or \$595,560, to its revenue requirement to meet a Times Interest Earned Ratio (TIER) of 1.38 and an Operational Times Interest Earned Ratio (OTIER) of 1.30.² Licking Valley sought to allocate all of the requested revenue increase to the residential rate class

¹ See Application (Dec. 18, 2020).

² See *id.*, paragraph 5.

by increasing the existing monthly customer charge of \$14.00 found in its SCHEDULE A— Residential, Farm, Small Community Hall & Church Service, to \$17.09 per month, with no change to the existing energy charge of \$0.090392 per kWh.³

By Order dated January 15, 2021, the Commission accepted Licking Valley’s application pursuant to the “streamlined procedure” established in Case No. 2018-00407.⁴ Following the entry of subsequent orders suspending the effective date of the proposed rates, imposing a procedural schedule for processing the case and extending the deadline for issuing a case decision, the Commission entered a Final Order on April 8, 2021 (Final Order) setting new rates.⁵ The Commission’s Final Order deviated substantially from Licking Valley’s proposal, both in terms of the approved revenue increase and implementation of the rate design methodology necessary to generate this revenue. When the application was filed Licking Valley was capped at an increase of 2.25 percent above current rate revenues based upon the Commission’s guidance for streamlined proceedings, but the Commission determined that – due to another year having elapsed since Licking Valley’s last rate increase during processing of this case – the cap should be adjusted to 3.00 percent and a total revenue increase of \$795,228 was approved, almost \$200,000 above Licking Valley’s original request.⁶ However, instead of implementing the increase through an upward adjustment to the monthly customer charge as Licking Valley proposed, the Commission increased the residential energy charge by approximately 4.72 percent, from \$0.090392 to \$0.094652 per kWh.⁷ Based on an average monthly usage for Licking Valley’s residential

³ *See id.*

⁴ *See* Order, Case No. 2020-00338 (Ky. P.S.C Jan. 1, 2021).

⁵ *See* Final Order, Appendix B, p. 1.

⁶ *See* Final Order., p. 9.

⁷ *See id.*, Appendix B.

customers of 969 kWh, the average monthly bill for residential customers will increase by \$4.13, from \$101.59 to \$105.72, or 4.06 percent.⁸ In addition to addressing revenue recovery and rate design the Commission also ordered Licking Valley to file a traditional general rate case within one year, which would be April 8, 2022.⁹ For the reasons below Licking Valley respectfully contends that the Commission’s April 8, 2021 Final Order is inconsistent with prior precedent, will create unnecessary hardship and that rehearing is necessary.

II. ARGUMENT

Underlying Licking Valley’s argument is an appreciation for the Commission’s genuine concern and regulatory obligation to ensure that the Cooperative and others like it consistently maintain an acceptable level of financial health. However, Licking Valley does not believe that the Commission’s chosen methodology as articulated in the Final Order is the best way to accomplish that goal.

A. THE COMMISSION’S DECISION TO REMOVE CUSTOMER EXPENSE ALLOCATIONS IN FAVOR OF AN ALLOCATION THAT IS 100 PERCENT DEMAND IS ARBITRARY AND INCONSISTENT WITH PRIOR COMMISSION DECISIONS AND INDUSTRY STANDARDS ADOPTED BY THE NATIONAL ASSOCIATION OF REGULATORY UTILITY COMMISSIONERS

The Final Order is replete with statements finding that the Cost of Service Study (“COSS”) supporting Licking Valley’s request is reasonable and reliable.¹⁰ The COSS was prepared by Licking Valley’s expert rate consultant, John Wolfram. In his testimony in support of the

⁸ See *id.*, p. 12.

⁹ See *id.*, p. 18.

¹⁰ See *id.*, pp. 9-10: “Having reviewed Licking Valley RECC’s COSS, the Commission finds it to be acceptable for use as a guide in allocating the revenue increase granted herein.”; *Id.*, p. 11: “The Commission finds that the COSS supports the proposed increase to the residential class because...[it] is contributing to the rate of return less than its cost to serve.”; *Id.*, p. 11: “Again, the Commission gives considerable weight to the COSS, which supports a customer charge of \$19.07 and the proposed customer charge is within what is calculated in the COSS.”

Application, and specifically the issue of how energy-related, demand-related and customer-related costs are classified, Mr. Wolfram provided a detailed explanation of how costs related to Distribution Poles, Overhead Conductor, Underground Conductor and Line Transformers were split between demand-related and customer-related using either the “zero-intercept” method or the “minimum system” method.¹¹ Mr. Wolfram cites the National Association of Regulatory Utility Commissioners Electric Cost Allocation Manual (NARUC CAM) when describing both methods and when citing a preference for the zero intercept method over the minimum system method,¹² a preference which the Commission shares.¹³ Mr. Wolfram is careful to note, however, that both are “standard methodologies” for classifying distribution fixed costs.¹⁴ The Commission erroneously fails to recognize this fact in its Final Order.

The Commission correctly notes that for Licking Valley the zero-intercept analysis did not provide reasonable results for poles, towers, and fixtures (Account 364), overhead conductors and devices (Account 365), and underground conductors and devices (Account 367).¹⁵ The Commission errs, however, on the next step; instead of accepting the classification of costs using the minimum system method as the alternative presented by Licking Valley, consistent with the NARUC CAM, the Commission instead concludes that this alternative approach is an

¹¹ See Application, Exhibit 9, Wolfram testimony, pp. 17-20.

¹² See *id.*, p. 18.

¹³ See Final Order, p. 11.

¹⁴ See Application, Exhibit 9, Wolfram testimony, pp. 18-19.

¹⁵ See Final Order, p. 11. The Commission further states that this indicates “little relationship between the number or cost of the poles or conductors and the number of customers” which is not entirely accurate. Instead, this indicates that the linear regression is unable to mathematically resolve a sound linear relationship between the per-unit costs and the size of the conductor (for overhead/underground) or between the per-unit costs and the height of the pole when using all of the weighted data points from Licking Valley’s property records as shown in Exhibit JW-8.

“estimation,” is “an arbitrary allocation” and “is unreasonable.”¹⁶ This conclusion is incorrect, ignores information in the record in this case, and should be vacated and amended.

The Commission fails to acknowledge Mr. Wolfram’s testimony that both are standard methodologies and ignores the fact that the minimum system method is described in the NARUC CAM as an alternative to the zero-intercept method for the express purpose of classifying distribution fixed costs. The Commission also ignores testimony that explained: “While the results here are atypical ... they simply mean that for Licking Valley, use of the 2019 asset data justifies the application of the minimum system method for these categories.”¹⁷ This position is uncontested in the record of this proceeding. The Commission disregards the industry-standard analysis, erroneously concludes that the minimum system method is “arbitrary” and “unreasonable,” and then proceeds to allocate the costs as 100 percent demand-related. Ironically, it is the Commission’s allocation of costs as 100 percent demand-related which is itself arbitrary and unreasonable, because there is no evidence in the record to support this conclusion, nor is any justification for this conclusion provided in the Commission’s Final Order.

There is evidence, however, that supports Licking Valley’s position. Mr. Wolfram explained in discovery that classifying the pertinent costs as 100 percent demand-related is not reasonable on its face.¹⁸ In particular, he states:

It is important to note that the 100 percent demand classification cited in the two prior Commission Orders is inconsistent with findings of the Commission in many other utility rate cases and is likewise inconsistent with the NARUC Cost Allocation Manual, which was adopted by the Commission many years ago and routinely used by it ever since. **The manual specifically states on**

¹⁶ See *id.*, p. 12.

¹⁷ See Application, Exhibit 9, Wolfram testimony, p. 20.

¹⁸ See Licking Valley Response to Commission Staff’s First Data Request, Item 11.

page 90 that “Distribution plant Accounts 364 through 370 involve demand and customer costs” (emphasis added). The manual describes two methods for classification – the zero-intercept method and the minimum system method. As the Commission acknowledged, if the zero-intercept method is not adopted, the recommended approach then becomes the minimum system method. The minimum system method is not equivalent to classifying all of these costs as 100 percent demand. It is simply not reasonable to assume that the costs for poles, overhead conductor, and underground conductor have no customer-related component; if it were reasonable, it follows that there would be no cause for the NARUC Cost Allocation Manual to identify two other methods for calculating the apportionment. Importantly, the NARUC Cost Allocation Manual specifically identifies other individual accounts that should be classified as 100 percent demand, and these particular accounts are not among them. A utility will incur some portion of costs for poles and conductor for every customer, regardless of customer size, such that the classification of these costs to the customer component should not be zero. The minimum system calculation in Exhibit JW-8 is accurate and relies upon detailed property data provided by the utility for the test period. Licking Valley respectfully believes that it should be accepted by the Commission and relied upon for determining the cost-based residential customer charge in this case.”¹⁹

In its Final Order, the Commission overlooked this evidence and drew precisely the opposite conclusion from that which is supported by the record. In fact, the use of the minimum system is standard, non-arbitrary, and reasonable when the zero-intercept method does not provide mathematically sound results. Removing the customer-related percentage and considering all of these costs as 100 percent demand-related as specified in the Commission order is non-standard, arbitrary, and unreasonable. This is the case if for no other reason because even a customer with no usage would need these facilities – conductor and pole (if overhead) – of some non-zero size and thus non-zero cost, in order to be able to take service from Licking Valley. Those non-zero costs are customer-related, and any costs in excess of those amounts are demand-related. It is

¹⁹ See *id.*

unreasonable to assume that a consumer's premise can become a Licking Valley customer without any customer-related costs for conductor and a pole (if overhead). This is why the NARUC CAM states that these facilities "involve demand **and** customer costs."²⁰ (emphasis added). By ignoring both the zero-intercept and minimum system methodologies, the Commission in essence created a third standard that is at odds with the accounting rules it has historically required cooperatives to follow. This inconsistency in the law will ripple across the pages of future cooperative filings and the currently well-established standards for asset cost allocation risk will devolve into a highly subjective and arbitrary endeavor. Such an outcome will present future grief for the Commission, cooperatives and end-use retail members resulting from less clarity regarding how future COSSs should be developed and presented.

Furthermore, the Commission should have recognized that "the current rate structure places too little recovery of fixed costs in the fixed charge, which results in significant under-recovery of fixed costs, particularly when members embrace conservation or energy efficiency or otherwise reduce overall consumption."²¹ Applying all of the allowed increase to the energy charge only exacerbates this problem for Licking Valley.

Another consideration is the effect on Licking Valley's customers most in need. Licking Valley's low-income customers are among the cooperative's highest energy users.²² If the rate increase is applied entirely to the energy charge, the effect of the rate increase will only be amplified for low-income users. Application of some of the increase to the customer charge in a

²⁰ *See id.*

²¹ *See* Application, Exhibit 9, Wolfram testimony, p. 24.

²² *See* Licking Valley Response to Commission Staff's First Data Request, Item 8.

manner consistent with Licking Valley's proposed rates would mitigate the adverse billing impacts for low-income customers relative to Licking Valley's residential class as a whole.

For these reasons, the Commission should vacate its conclusions that: (a) Licking Valley's allocation of these costs is arbitrary and unreasonable; and (b) the appropriate allocation is 100 percent demand-related and results in a monthly customer charge of \$12.99. The Commission should amend its findings to either: (a) increase the monthly residential customer charge by an amount sufficient to generate the required revenue and maintain the residential energy charge as currently provided in the tariff; or (b) accept the \$17.09 monthly residential customer charge as proposed by Licking Valley and increase the residential energy charge by an amount sufficient to generate the required revenue.

B. THE COMMISSION'S REQUIREMENT FOR LICKING VALLEY TO FILE A TRADITIONAL GENERAL RATE CASE WITHIN ONE YEAR WILL NOT RELIABLY CAPTURE COST-CUTTING MEASURES NOR THE EFFECT OF BACK-TO-BACK RATE INCREASES, AND WILL BE UNDULY BURDENSOME ON RATEPAYERS

As discussed in the Final Order, Licking Valley's management has closely monitored expenses in order to minimize cost-escalation and implemented cost-cutting measures to serve its members more efficiently.²³ Examples of these measures include: reducing costs in important categories such as labor expense by holding the line on employee wage raises, cutting overtime and maintaining adequate, but not excessive, employee headcount; extending lives of large and expensive vehicles such as digger and bucket trucks; repurposing costly equipment such as regulators, transformers and breakers instead of buying new equipment; improved right-of-way management' efficiencies realized by implementing a new AMI system and office communication

²³ See Final Order, p. 8; Application Exhibit 7, Howard testimony, p. 6.

systems; deployment of an efficient outage management system utilizing Global Positioning System mapping of the service territory; and reductions in advertising and donation expense.²⁴ In addition, beginning September 1, 2020, all Licking Valley employees began contributing slightly more than 10% of the cost of their health insurance premiums, regardless of whether they have single or family coverage.²⁵

Historically, the Licking Valley Board of Directors has determined the annual amount of wage adjustments, if any, which employees received. Typically, these adjustments have been given across-the-board to Licking Valley's employees.²⁶ However, Licking Valley has just concluded a comprehensive wage and salary review by a noted wage and salary consultant, which will be used as a benchmark for setting and maintaining employee wages in the future.²⁷ A standardized employee evaluation process will also be introduced,²⁸ which should result in reliable and consistent results to further assist in reasonable wage decisions on the part of management. Following an evaluation of Licking Valley's wage and salary study, the Commission determined that "most salaries are below national, state and regional averages."²⁹

These various cost-cutting measures, especially the greater oversight and standardization of employee wages and benefits, continue today and will in the future. Given time, these measures should result in even more savings for Licking Valley which will likely improve its overall financial health for the benefit of its owner-members.

²⁴ See Final Order, pp. 8-9; Application Exhibit 7, Howard testimony pp. 5.

²⁵ See Application Exhibit 8, Bradley testimony, pp. 7-8.

²⁶ See *id.*, p. 8.

²⁷ See *id.*

²⁸ See *id.*

²⁹ See Final Order, p. 17.

However, if Licking Valley is required to file a traditional general rate case within the next year as the Commission's Order requires, whatever historical test year is chosen will not fully include the results of management's continued work to cut costs across the enterprise. Full rate cases are both expensive and time consuming to the utility and Commission Staff, and in the case of distribution cooperatives typically come with less frequency than investor owned utilities. Licking Valley respectfully suggests that the Commission should not require the filing of a full rate case until at least three years has elapsed to allow for the effects of these various cost-cutting measures to realize their full potential.

There is another equally compelling reason for the Commission to reconsider the required full rate case filing within one year. Once this case becomes final in the coming days, an average Licking Valley customer will realize a 4.06% increase to their monthly power bill. Following closely on the heels of this increase will likely be an additional rate increase resulting from East Kentucky Power Cooperative's (EKPC) application for general adjustment of its wholesale rates to its 16 member systems, including Licking Valley.³⁰ Licking Valley calculates that the proposed EKPC rate request, if fully approved, will result in a 3.27% base rate increase to Licking Valley's residential customers.³¹ If the Commission's Order in the instant case stands and Licking Valley is required to file a full rate case sometime in the next 12 months its customers will find themselves being on the receiving end of three successive base rate increases in the course of eighteen months. This is a result that neither Licking Valley nor their ratepayers want or should be required to sustain. Added misery will likely be heaped upon Licking Valley's low-income customers since

³⁰ See *In the Matter of: Electronic Application of East Kentucky Power Cooperative, Inc. for a General Adjustment of Rates, Approval of Depreciation Study, Amortization of Certain Regulatory Assets, and other General Relief*, Case No. 2021-00103.

³¹ See *In the Matter of: Electronic Application of Licking Valley Rural Electric Cooperative Corporation for Pass-Through of East Kentucky Power Cooperative, Inc.'s Wholesale Rate Adjustment*, Case No. 2021-00113, Application Exhibit 3, p. 1.

the Commission's increase in this case and the one anticipated as a result of the EKPC pass-through case will largely come from an increase in the monthly energy charge rather than an increase in the customer charge. Because low-income customers disproportionately use more energy on a monthly basis compared to the average 969 kWh Licking Valley customer, back-to-back increases to the energy charge will be difficult enough to absorb. If a third increase results approximately one year later flowing from the Commission's mandate to Licking Valley, it will most certainly result in an unfortunate financial burden on ratepayers, and one that is preventable by the Commission.

It is imprudent to require an automatic full rate case filing within one year without first allowing the described cost-containment measures to mature and simultaneously consider their effect alongside the two imminent rate increases on Licking Valley's financial condition. If the Commission's Order stands it is virtually impossible for Licking Valley to employ a test year that fully includes either or both rate increases.

Rather than imposing a one-year rate case filing deadline, the Commission should instead extend that period to three years allowing the full effect of Licking Valley's cost containment measures and the back-to-back rate increases previously discussed to fully develop into consistent and demonstrable revenues.

For the reasons set forth above, Licking Valley respectfully requests the Commission grant rehearing and vacate and amend its April 8, 2021 Order, and thereby:

1. Allow the Commission's revised revenue increase of \$795,228, but consistent with the results of the Cost of Service Study; either (a) increase the monthly residential customer charge by an amount sufficient to generate the required revenue and maintain the residential energy charge as currently provided in the tariff; or (b) accept the \$17.09 monthly residential customer charge as

proposed by Licking Valley and increase the residential energy charge by an amount sufficient to generate the required revenue; and,

2. Require Licking Valley to file a full rate case no later than three years following entry of the Commission's Order on this Motion for Rehearing, or sooner if required by virtue of requirements in Licking Valley's loan covenants with either of its lenders, Rural Utilities Service or National Rural Utilities Cooperative Finance Corporation.

This 21st day of April, 2021.

Respectfully Submitted,



Mark David Goss
L. Allyson Honaker
Goss Samford, PLLC
2365 Harrodsburg Rd.
Suite B-325
Lexington, KY 40504
(859) 368-7740
mdgoss@gosssamfordlaw.com
allyson@gosssamfordlaw.com

Counsel for Licking Valley RECC

CERTIFICATE OF SERVICE

This is to certify that the foregoing electronic filing is a true and accurate copy of the document being filed in paper medium; that the electronic filing was transmitted to the Commission on April 21, 2021; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; and that a copy of the filing in paper medium will be filed with the Commission within thirty days of the current state of emergency for COVID-19 being lifted.



Counsel for Licking Valley RECC