

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE ELECTRONIC APPLICATION OF)	
LICKING VALLEY RURAL ELECTRIC)	
COOPERATIVE CORPORATION FOR A)	CASE NO.
GENERAL ADJUSTMENT OF RATES)	2024-00211
AND OTHER GENERAL RELIEF)	

LICKING VALLEY RURAL ELECTRIC
COOPERATIVE CORPORATION’S POST-HEARING BRIEF

Comes now Licking Valley Rural Electric Cooperative Corporation (“Licking Valley”), by counsel, pursuant to the Kentucky Public Service Commission’s (“Commission”) February 6, 2025 Order in this proceeding setting forth the post-hearing procedural schedule and the deadline for submitting a post-hearing brief in support of its position in this matter, and respectfully states as follows:

INTRODUCTION

This case presents the request for a rate adjustment by Licking Valley necessitated by substantial increases in general operating expenses coupled with decreased energy sales. The combination of increased expenses and loss of sales resulted in degradation of Licking Valley’s financial condition. To address Licking Valley’s undesirable financial condition, the Cooperative’s Board of Directors, in conjunction with management and its consultant, determined that a general adjustment of retail rates is necessary to improve its overall financial condition, satisfy future loan covenants, and to account for increased costs in virtually all areas of Licking Valley’s business operations since its last full rate case in 2020.

Consistent with KRS 278.030(1), Licking Valley seeks approval to increase its annual revenues by \$2,836,901 or 7.5%.¹, allowing Licking Valley to achieve a Times Interest Earned Ratio (“TIER”) of 2.00. Licking Valley based its proposed rates on a twelve-month historic test period ending December 31, 2023. Included in the request is an increase of the monthly customer charge from \$16.50 to \$30.00. These rates are based on the results of a comprehensive cost of service study (“COSS”). The rates are appropriately adjusted for known and measurable changes consistent with Commission regulations and precedent.

Through extensive discovery and a formal hearing, each of Licking Valley’s assertions and claims were explored by Commission Staff (“Staff”) and the Kentucky Attorney General’s Office of Rate Intervention (“Attorney General”). As is normal in any contested rate case, there are differing positions on the revenue requirement, customer charge, and pro forma adjustments. However, in the end Licking Valley supported its position with a COSS and the methodologies employed for calculation of its requested pro forma adjustments are accurate and reliable and provide the basis for a Commission decision granting the requests in this case.

PROCEDURAL HISTORY

Licking Valley filed its Notice of Intent to file this rate proceeding on July 1, 2024.² Licking Valley filed its Application on August 8, 2024.³ The Attorney General’s Office of Rate Intervention (“Attorney General”) was granted intervention on August 12, 2024.⁴ The Commission entered an Order on August 16, 2024, suspending the rates proposed by Licking

¹ Application, at 2.

² Notice of Intent (filed July 1, 2024).

³ Application (filed August 8, 2024).

⁴ August 12, 2024 Order (Ky. PSC. August 12, 2024).

Valley until February 8, 2025.⁵ Licking Valley responded to three rounds of discovery from Commission Staff,⁶ and two rounds of discovery from the Attorney General.⁷ The Attorney General filed its Direct Testimony.⁸ A hearing was held on February 4, 2025.⁹ A post-hearing procedural schedule was entered on February 6, 2025,¹⁰ and Licking Valley responded to post-hearing requests for information from Commission Staff and the Attorney General.¹¹ Licking Valley now submits the following post-hearing brief in support of its position.

ARGUMENT

I. Licking Valley's Employment Policy Is Reasonable

Licking Valley employs Travis Stacy as the Manager of Corporate Services. Mr. Stacy has served in this position since March 2021. Before Mr. Stacy was employed by Licking Valley, he was a member of Licking Valley's Board of Directors and was employed by Bank of the Mountains.¹² While Mr. Stacy was employed by Bank of the Mountains, the Covid-19 Pandemic Paycheck Protection Program ("PPP") Loans were authorized by the United States Congress.

⁵ August 16, 2024 Order (Ky. PSC. August 16, 2024).

⁶ Licking Valley's Responses to Staff's First Request for Information (filed August 22, 2024); Licking Valley's Responses to Staff's Second Request for Information (filed September 18, 2024); and Licking Valley's Response to Staff's Third Request for Information (filed October 16, 2024).

⁷ Licking Valley's Responses to the Attorney General's First Request (filed September 18, 2024) and Licking Valley's Response to the Attorney General's Second Request (filed October 16, 2024).

⁸ Direct Testimony of Randy Futral (filed October 30, 2024).

⁹ Hearing Video Transcript (HVT) of the February 4, 2025 Hearing.

¹⁰ February 6, 2025 Order (Ky. PSC. February 6, 2025).

¹¹ Licking Valley's Responses to Staff's Post-Hearing Request for Information (filed February 24, 2025) and Licking Valley's Response to the Attorney General's Post-Hearing Request (filed February 24, 2025).

¹² Licking Valley's Response to the Attorney General's First Request for Information, Item 64; Licking Valley's Response to the Attorney General's Second Request for Information, Item 10; and HVT at 9:28:01.

Licking Valley applied for and was approved for a PPP Loan through the Bank of the Mountains while Mr. Stacy was an employee of Bank of the Mountains and a Licking Valley Board member.

Mr. Stacy offered testimony that, while he was employed by the Bank of the Mountains, he did not participate in PPP Loan processing and was not directly or indirectly involved with Licking Valley's approval process.¹³ Bank of the Mountains was the only bank in Licking Valley's area that processed PPP Loans.¹⁴ Mr. Stacy also provided testimony that he did not vote on the decision to move forward with the loan while serving as a Licking Valley Board member.¹⁵ Mr. Stacy, while a Board member, took his fiduciary and ethical duties seriously and did not violate any statutes, regulations, or ethical obligations during his time as a Board member.

C.K. Stacy is a member of Licking Valley's Board.¹⁶ C.K. Stacy is Mr. Stacy's father. Licking Valley's Board Policy 106 – Nepotism, states, "LVRECC shall not employ any individual(s) residing in a Director(s) or General Manager/CEO's household." Mr. Stacy's employment and C.K. Stacy's service as a Board Member does not violate this policy. Mr. Stacy and C.K. Stacy do not reside in the same residence. There is no evidence in the record that Mr. Stacy's employment was not based upon merit.¹⁷ In fact, the resume provided by Mr. Stacy in response to discovery serves as further proof that Mr. Stacy is qualified and has the education and experience to serve as Licking Valley's Manager of Corporate Services.¹⁸

II. Licking Valley Did Not Violate its Tariff by Allowing Payment Plans

¹³ HVT at 9:28:01.

¹⁴ HVT at 9:28:01.

¹⁵ HVT at 9:28:01.

¹⁶ Licking Valley's Response to the Attorney General's Second Request, Item 10.

¹⁷ Licking Valley's Response to the Attorney General's Second Request, Item 10.

¹⁸ Licking Valley's Response to the Attorney General's Second Request, Attachment 10c.

As discussed at the hearing, Licking Valley has a small number of customers that owe arrears for electric service.¹⁹ Licking Valley explained that it follows its tariff, 807 KAR 5:006, Section 14(2), and 807 KAR 5:006, Section 15 when determining if service to a customer should be disconnected or if there are other options for the customer.²⁰ There is one customer, now deceased, who owed in excess of \$10,000.²¹

Licking Valley explained the customer that owed over \$10,000 is a customer that fell behind on his monthly payments.²² Pursuant to Second Revised Tariff Sheet 15 – B, and consistent with the regulations in 807 KAR 5:006, Licking Valley and the member agreed to a payment arrangement.²³ The Licking Valley employee who was monitoring this payment plan left the Cooperative and the account was never switched to the disconnect list when the customer did not provide payments pursuant to the payment agreement.²⁴ When it was discovered that the member owed a substantial sum and had not abided the payment plan, Licking Valley instituted a civil action to resolve the issue.²⁵

Licking Valley understands it is not acceptable to have a residential member that is over \$10,000 in arrears. Licking Valley took steps to ensure payment plans are now monitored in such

¹⁹ HVT at 9:07:01 and Licking Valley's Response to the Attorney General's Post-Hearing Request for Information, Item 3.

²⁰ Licking Valley's Response to the Attorney General's Post-Hearing Request for Information, Item 1; Licking Valley's Response to Commission Staff's Post-Hearing Request for Information, Item 6; and HVT at 9:08:20.

²¹ Licking Valley's Response to the Attorney General's Post-Hearing Request for Information, Item 5 and Licking Valley's Response to Commission Staff's Post-Hearing Request for Information, Item 6.

²² Licking Valley's Response to the Commission Staff's Post-Hearing Request for Information, Item 6.

²³ Licking Valley's Response to Commission Staff's Post-Hearing Request for Information, Item 6.

²⁴ Licking Valley's Response to Commission Staff's Post-Hearing Request for Information, Item 6.

²⁵ Licking Valley's Response to Commission Staff's Post-Hearing Request for Information, Item 6.

a way that it is not dependent on any individual employee and no account will be permitted to become so far behind.

III. Licking Valley's Rate Design is Reasonable and Is Supported By The Cost Of Service Study

Licking Valley engaged the services of Catalyst Consulting LLC (“Catalyst”) to perform a comprehensive cost of service study (“COSS”) to assist Licking Valley in designing its proposed rates. Mr. John Wolfram, Principal of Catalyst, conducted the COSS which showed that the residential class was being subsidized by other rate classes.²⁶ Regarding the residential class, the COSS supported a residential customer charge of up to \$31.62.²⁷ Licking Valley chose to move closer to cost-based rates because the cooperative is facing declining sales and, without an increase to the cost-based rate for the customer charge, Licking Valley will not be able to generate the required revenue. Licking Valley proposed to increase the current customer charge of \$16.50 to \$30.00.²⁸

In addition, Licking Valley distributed the required rate increase more heavily in the customer charge, as opposed to the energy charge, consistent with the COSS, creating the least negative impact to economically vulnerable members. Applying more of the rate increase to the customer charge, which is fixed, is the least volatile option. Based upon Licking Valley’s experience, members who can least afford an increase use more energy due to poorly insulated homes which use more energy.²⁹ Said another way, if the energy charge is adjusted upward to reach the desired revenue requirement, low income customers will actually pay more because they

²⁶ Application, Exhibit 10, Direct Testimony of John Wolfram, at 21.

²⁷ Application, Exhibit 10, Direct Testimony of John Wolfram, at 22.

²⁸ Application, Paragraph 5.

²⁹ Licking Valley’s Response to Commission Staff’s Post-Hearing Request for Information, Item 3.

use more energy and it will be more difficult to budget for the increase due to the volatility of the bills based on energy usage. Allowing a customer charge of \$30.00 mitigates this problem by allowing the customers that use more energy to have a known increase on their bills instead of guessing throughout the month on how much energy is used.

The Attorney General did not provide any evidence in written testimony, responses to requests for information, or hearing testimony that the COSS was incorrect or should not be utilized by the Commission. Instead, the Attorney General placed great weight on the fact that Licking Valley would be the only cooperative with a customer charge around \$30.00. The Commission has multiple pending rate cases where a cooperative is making similar requests due to increasing economic pressures felt by individuals and cooperatives alike.³⁰ Additionally, the Commission has now authorized a customer charge over \$30.00.³¹ Also, Licking Valley's costs are not dependent upon or directly affected by the rates of other utilities. The COSS took into consideration the intricacies of Licking Valley's system and produced a just and reasonable cost required to service customers on that system.

The Commission previously stated, regarding the residential customer charge, "...for an electric cooperative that is strictly a distribution utility, there is merit in providing a means to guard against revenue erosion that often occurs due to the decrease in sale volumes that accompanies poor regional economies, changes in weather patterns and the implementation or expansion of

³⁰ Case No. 2024-00085, *Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment of Rates and Other General Relief* (filed May 1, 2024); Case No. 2024-00351, *Electronic Application of Shelby Energy Cooperative, Inc. for a General Adjustment of Rates* (filed December 5, 2024); Case No. 2024-00287, Case No. 2024-00211, *Electronic Application of Licking Valley Rural Electric Cooperative Corporation for a General Adjustment of Rates and Other General Relief* (filed August 8, 2024).

³¹ See Case No. 2024-00324, *Electronic Application for an Alternative Rate Adjustment for Jackson Energy Cooperative Pursuant to 807 KAR 5:078*, March 11, 2025 Order at 15 (Ky. PSC March 11, 2025) where the Commission authorized a customer charge of \$30.50.

demand-side management and energy-efficiency programs.”³² This philosophy from the Commission encapsulates Licking Valley’s approach to determining what the customer charge should be in this case. Licking Valley has designed its rates to place emphasis on the customer charge to guard against revenue erosion that will happen if the rate design is based around the energy charge. The Commission should examine the COSS for Licking Valley, that is undisputed, in this proceeding to determine the customer charge.

IV. Licking Valley’s Use of 2.0 TIER Calculation is Reasonable and Should Be Accepted by the Commission

For decades, virtually every electric distribution cooperative appearing before the Commission seeking rate relief based its underlying request on the ability to earn revenues sufficient to achieve a 2.00 TIER. Licking Valley is no different. If the Commission were to authorize a TIER lower than 2.00, Licking Valley would have less cash working capital, impairing Licking Valley’s ability to respond to any unforeseen expenses. As the Commission is aware, even though Licking Valley’s rates are currently set to achieve a 2.0 TIER, Licking Valley does not achieve a 2.0 TIER.³³ Decreasing the TIER will put Licking Valley in jeopardy of not meeting its debt covenant requirements. If the Commission were to deviate from the 2.00 TIER, it would abandon years of precedent that cooperatives rely upon.³⁴ The Attorney General is asking the Commission to undo decades of precedent with no evidentiary support. Licking Valley’s use of

³² Case No. 2023-00158, *Electronic Application of Farmers Rural Electric Cooperative Corporation for a General Adjustment of Rates Pursuant to Streamlined Procedure Pilot Program Established in Case No. 2018-00407*, October 3, 2023 Order (Ky PSC Oct. 3, 2023).

³³ See Licking Valley’s Response to Commission Staff’s Third Request for Information, Item 5 which provides the Board of Directors Minutes from May 2021 through August 2024 and includes a monthly reporting on the Cooperative’s TIER.

³⁴ Case No. 2023-00223, *Electric Application of Fleming-Mason Energy Cooperative, Inc. for a General Adjustment of Rates*, June 28, 2024 Order at 16 (Ky. PSC June 28, 2024) citing historical cases utilizing a 2.00 TIER.

2.0 TIER calculation is reasonable in this case, is supported by precedent, and should be accepted by the Commission.

CONCLUSION

Licking Valley’s proposal in this case is based upon a comprehensive and reliable COSS employing both known and measurable changes to the test year. It is fair, just and reasonable both in terms of the revenue request and the rate design. Licking Valley respectfully requests the Commission enter a final order adopting its request in full, including the recovery of rate case expense amortized over a three-year period.

This the 14th day of March 2025.

Respectfully submitted,

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CERTIFICATE OF SERVICE

This is to certify that the electronic filing was transmitted to the Commission on March 14, 2025, and that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding. Pursuant to the Commission's July 22, 2021 Order in Case No. 2020-00085 no paper copies of this filing will be made.

Heather S. Temple

Counsel for Licking Valley