

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF)	
CUMBERLAND VALLEY ELECTRIC,)	CASE NO.
INC. FOR A GENERAL ADJUSTMENT)	2024-00388
OF RATES PURSUANT TO 807 KAR 5:0078)	

**CUMBERLAND VALLEY ELECTRIC, INC.’S
COMMENTS IN SUPORT OF APPLICATION**

Comes now Cumberland Valley Electric, Inc. (“Cumberland Valley”), by counsel, pursuant to the Commission’s April 30, 2025 Order, and in further support of its Application requesting a general adjustment of its existing rates, respectfully offers the following comments:

Cumberland Valley is a not-for-profit, member-owned, rural electric distribution cooperative organized under KRS Chapter 279 that provides retail electric service to approximately 24,300 metered accounts in the Kentucky counties of Bell, Clay, Harlan, Knox, Laurel, Leslie, Letcher, McCreary, and Whitley.¹ Approximately fifty-four (54%) percent of Cumberland Valley’s total energy usage is consumed by residential customers.² Using a historical, twelve-month test period ending on December 31, 2023, Cumberland Valley seeks approval to increase its annual revenues by \$2,248,438, or 3.9%, to achieve an Operating Times Interest Earned Ratio (“OTIER”) of 1.54.³

¹ Application at 1 (filed March 24, 2025).

² Application, Exhibit 30, Direct Testimony of Robert Tolliver (“Tolliver Direct Testimony”) at 5.

³ Application, Exhibit 31, Direct Testimony of John Wolfram (“Wolfram Direct Testimony”) at 7.

Cumberland Valley is proposing to increase the residential rate customer charge from \$17.62 to \$25.00 per month and to decrease the energy charge from \$0.09694 to \$0.09508 per kWh.⁴ This would result in a \$5.53, or 4.3%, increase to the average residential user.⁵ Cumberland Valley is also proposing to increase the monthly customer charge in Schedule VII – Inclining Block Rate (“Inclining Block Rate”) from \$10.26 to \$17.64; and Schedule II – Small Commercial and Small Power (“Small Commercial”) from \$19.69 to \$27.07; and other various changes to the large power classes.⁶ Each of these rate design proposals is consistent with the Cost of Service Study (“COSS”) prepared by Mr. John Wolfram.⁷

Cumberland Valley filed its last general rate case in 2016 and a streamline rate proceeding in 2020.⁸ With very slow growth and a similarly flat increase in average energy sales,⁹ inflationary pressures have continued to erode the cooperative’s margins. Inflation has driven labor expenses and material costs significantly higher over the past several years. Interest rates have also increased sharply in the last several years.¹⁰

Also, a significant impact of the COVID-19 pandemic on Cumberland Valley has been the tremendous cost increases in essential materials utilized each day for the provision of reliable services to its members. These increases have occurred across virtually every expense category.

⁴ Application, Exhibit 5.

⁵ Application, Exhibit 5.

⁶ Application, Exhibit 5.

⁷ Wolfram Direct Testimony, Exhibit JW-3 through JW-8.

⁸ Case No. 2016-00169, *Application of Cumberland Valley Electric, Inc. for a General Adjustment of Rates*, February 16, 2017 Order (Ky. PSC February 16, 2017); Case No. 2020-00264, *Electronic Application of Cumberland Valley Electric, Inc. for a General Adjustment of Rates Pursuant to Streamlined Pilot Program Established in Case No. 2018-00407*, December 30, 2020 Order (Ky. PSC Dec. 30, 2020).

⁹ Cumberland Valley’s Response to the Attorney General’s First Request for Information, Item 4 (filed May 29, 2025).

¹⁰ Tolliver Direct Testimony at 5.

Cumberland Valley has been able to offset many of these costs and delay a base rate increase through prudent management practices, however, Cumberland Valley's financial metrics are below what is necessary to continue to provide safe and reliable service.

Despite the increasing inflationary pressures and rising costs, Cumberland Valley continues to focus on lowering or controlling expenses. Cumberland Valley continually evaluates staffing. In certain instances, Cumberland Valley has chosen to not replace staff when there is a vacancy. Instead, the job duties are reassigned to other employees. This type of staffing decision will not work for every situation. Cumberland Valley continuously and actively monitors its borrowing and long-term debt. Cumberland Valley historically either rode out variable rates or locked in long term rates depending on the interest rate environment. At one point in time, Cumberland Valley had the second lowest composite interest rate of any electric cooperative in the nation per CFC's Key Ratio Trend Analysis. Cumberland Valley also actively monitors investments to maximize interest and maintain sufficient cash flow.¹¹ Additionally, Cumberland Valley moved to a cloud-based phone system. This not only resulted in monetary savings, it also resulted in better efficiency.¹²

While Cumberland Valley has had several cost-saving initiatives since its last general rate increase, its financial metrics have generally deteriorated. In 2023, Cumberland Valley's OTIER was 0.62¹³; and, through April 2025 it was 1.50.¹⁴ The requested OTIER in this rate application

¹¹ Cumberland Valley's Response to the Attorney General's First Request, Item 5.

¹² Cumberland Valley's Response to the Attorney General's First Request, Item 5.

¹³ Cumberland Valley's Response to the Attorney General's First Request, Item 6.

¹⁴ Cumberland Valley's Response to the Attorney General's First Request, Item 5.

will allow Cumberland Valley to operate in a healthy manner and meet financial covenants in future years.

Consistent with the Commission's streamlined rate adjustment regulations, and general ratemaking principles, Cumberland Valley made adjustments to the test year expense to account for: the fuel adjustment clause, the environmental surcharge, rate case expense, year-end customer normalization, generation and transmission capital credits, non-recurring items, depreciation expense normalization, advertising and donations, Director's expenses, interest expense, and life insurance premiums.¹⁵

In allocating the proposed rate increase, Mr. Wolfram prepared a COSS using standardized procedures whereby: (1) costs were functionalized to the major functional groups; (2) costs were classified as energy-related, demand-related, or customer-related; and then (3) costs were allocated to the rate classes.¹⁶ Mr. Wolfram's detailed analysis demonstrated that Cumberland Valley is not recovering its costs from the residential rate classes while it is over-recovering its costs with regard to other customer classes. As explained by Mr. Wolfram: (1) the COSS demonstrates a need to increase the rates for residential customers; and (2) the COSS supports a fixed monthly customer charge of \$26.43 for residential customers while the current charge is only \$17.62.¹⁷ The requested customer charge of \$25.00 per month reflects a gradual increase in the customer charge. The requested increase of \$7.38 per month is offset by the reduction in the energy charge. So, overall the residential class will only see an increase of approximately 4.3%.

¹⁵ Wolfram Direct Testimony at 9-14.

¹⁶ Wolfram Direct Testimony at 14-18.

¹⁷ Wolfram Direct Testimony at 21.

The proposed increase to residential rates amounts to a gradual change that eliminates subsidization of residential rate class by the other rate classes. This is not only gradual but it is also fair, just, and reasonable.

A significant factor in revenue for distribution cooperatives is moderate temperatures that yielded lower-than-expected residential demand. To mitigate the volatility of temperatures, Cumberland Valley has chosen to allocate more of the rate increase to the monthly customer charge rather than the kWh energy charge. With the small margins that a 1.54 OTIER allows, and the fact that a distribution cooperative does not have shareholders, cooperatives are faced with tough decisions on where to get the funds needed to pay for unexpected expenses as well as the everyday expenses to provide safe and reliable service to its members. Cumberland Valley reviewed the COSS and then, while considering the economy of the region, determined to request a residential customer charge of \$25.00. Cumberland Valley believes this will allow Cumberland Valley to experience less volatility in its revenues and for its customers to experience less volatility in their monthly bills.

The evidence in this proceeding is that the fixed costs to serve Cumberland Valley's members is \$26.43. 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, signaling to the Commission, the Attorney General, and the public that distribution cooperatives are moving toward cost based rates. The COSS took into consideration the intricacies of Cumberland Valley's system and produced a just and reasonable cost required to service customers on that system.

As previously mentioned, increasing labor costs are a significant contributor to the need for a rate adjustment. Cumberland Valley operates in a competitive labor market, and it is increasingly difficult being located in Eastern Kentucky where competition for qualified employees in the area is strong. This is especially true for linemen and technically trained employees. This creates an upward pressure on wages and benefits to be able to attract and retain quality employees to serve Cumberland Valley's members.

Throughout the discovery process, the Attorney General requested information on Cumberland Valley's salary and benefits. Cumberland Valley believes that its salary and benefits are reasonable and comparable to other cooperatives in the state. Cumberland Valley responded to these issues in more detail in responses to the AG's requests for information.¹⁸ Cumberland Valley believes its level of health insurance contributions, life insurance contributions, and salary are reasonable and should be accepted by the Commission in this proceeding.

While, Cumberland Valley's revenue requirement in the current rate application does not include a proforma adjustment for right-of-way expense these expenses contribute significantly to Cumberland Valley's expenses. Cumberland Valley is committed to providing reliable electric service to members which requires an investment in right-of-way. While financially treated as an expense, right-of-way management is an investment in the future of the system. Right-of-way that is adequately maintained will result in decreased outages, less labor costs due to decreased overtime labor, and reduced loss of revenue. In addition to the financial benefits, member aggravation due to outages is also alleviated.

¹⁸ Cumberland Valley's Responses to the Attorney General's First Request for Information, Items 7, 8, and 9.

Cumberland Valley pays membership dues for inclusion in various associated organizations such as NRECA and the Kentucky Electric Cooperatives. These peer groups provide many best practice opportunities, safety guidance, continuing education, and advocacy, as well as access to group benefit opportunities that allow Cumberland Valley to offer a competitive benefit package. One of the seven guiding principles of electric cooperatives is Commitment to Community and these affiliations help Cumberland Valley to follow and achieve the purposes of this principle. While there are a number of benefits to Cumberland Valley for participating in these organizations, it should be noted that these membership dues are excluded from the revenue requirement in this case.

As stated above, one of the seven guiding principles for an electric cooperative is Commitment to Community. In order to abide by this guiding principle, Cumberland Valley is involved in the community that it serves. Volunteering, sponsoring community events and other charitable donations are some of the ways that an electric cooperative can give back to the community, which is ultimately the owners of the electric cooperative. Even though these items are not included in the revenue requirement and not recoverable for rate-making purposes, they are necessary items that a cooperative needs to invest in to give back to the community that it serves.

Cumberland Valley is mindful of the timing of its rate case filing and of the fact that no increase is ever welcomed by customers. However, as the Commission has opined regularly, a cooperative has a duty to safeguard its financial integrity for the benefit of its members who are also its customers.¹⁹ In this particular case, based on the adjusted test year under the OTIER cap,

¹⁹ See, e.g., Case No. 2008-00371, *In the Matter of the Application of South Kentucky Rural Elec. Coop. Corp. for A Certificate of Pub. Convenience & Necessity to Construct A New Headquarters Facility in Somerset, Kentucky*, Order, (Ky. P.S.C. May 11, 2010) (“South Kentucky’s board of directors owes a fiduciary duty to its customers to safeguard the financial and operational viability of the cooperative. This fiduciary duty is heightened given the fact that South

the revenue deficiency is \$2,248,438. However, pursuant to 807 KAR 5:078, Cumberland Valley is only permitted to request and adjustment of rates of up to 1 percent per year since its last rate adjustment or an OTIER of 1.85. Should the Commission choose to disallow any costs in Cumberland Valley's pro forma adjustments included within the test year, Cumberland Valley respectfully requests the option to still award a 1.54 OTIER that has been requested. This will allow Cumberland Valley to maintain compliance with its loan covenants.

In summary, Cumberland Valley's proposal is fair, just, and reasonable both in regard to the amount of the revenue request and the rate design. Cumberland Valley is grateful to the Commission for allowing this case to proceed under the streamlined rate case procedures and appreciates the Attorney General's constructive participation in the case. For the reasons set forth above, Cumberland Valley respectfully requests the Commission to approve its Application and authorize the new rates.

This the 9th day of June, 2025.

Kentucky's customers are also the owners of the cooperative.”); Case No. 2006-00472, *In the Matter of the General Adjustment of Electric Rates of East Kentucky Power Cooperative, Inc.*, Order, , pp. 26-27 (Ky. P.S.C. Dec. 5, 2007):

Unlike an investor-owned utility where the equity owners of the utility may or may not also be customers of the utility, an RECC is governed and owned by its members, who are also its customers. While members of the 16-member systems have an interest in keeping their distribution cooperative's rates as low as possible, they also have an interest in keeping their distribution cooperative's equity position in EKPC viable. The directors of EKPC — who generally are also officers and directors of the 16-member systems — have an obligation to either seek an increase or decrease in EKPC's base rates when the balance between low rates for end users and sufficiently high rates to keep EKPC viable falls out of equilibrium. Though there is a constant friction between these interests, it is one EKPC's board members voluntarily undertake.

Respectfully submitted,

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CERTIFICATE OF SERVICE

This is to certify that the electronic filing was transmitted to the Commission on June 9, 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 Cumberland Valley Electric, Inc.