LICKING VALLEY
RURAL ELECTRIC COOPERATIVE CORPORATION
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KERRY K. HOWARD
General Manager/CEO

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October 05, 2009

Mr. Jeff Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, KY 406020615

RE: Case No. 2009-00016 – Licking Valley RECC

Dear Mr. Derouen:

Enclosed you will find an original and 7 copies of Licking Valley's Revised Response to PSC3-9. Should you have any questions on this revised response, please contact us at your convenience.

Sincerely,

Kerry Howard
General Manager/CEO.

c: Larry Cook
Assistant Attorney General
Office of the Attorney General
1024 Capital Center Drive, Suite 200
Frankfort, KY 40601

LICKING VALLEY RECC
CASE NO. 2009-00016

RESPONSE TO THE THIRD DATA REQUEST OF THE COMMISSION STAFF

Question:

Refer to the response to Item 23 of Staff's Second Request. This response explains that fuel cost recovery is not the cause of the increase in revenues being substantially less than the increase in purchased power costs. However, the response does not explain why the increase in purchased power costs is not matched by a comparable increase in revenues. Explain in detail why a $1.4 million increase in purchased power costs did not translate into a similar increase in revenues form 2007 to 2008. Include in your response whether or not the lag in recognition of revenue was a contributing factor.

Response:

Licking Valley has not been able to provide a reason as to why this difference exists. However, an analysis of the gross margin for these two periods has been completed and is provided below.

GROSS MARGIN ANALYSIS				
		2007	2008	2008 - 2007
Total Electric Rate Revenue		24,203,902	24,413,214	209,312
Less:	FAC Revenue	2,015,940	2,318,350	302,410
	Surcharge Rev.	1,388,678	1,066,377	(322,301)
Base Rate Revenue		20,799,284	21,028,487	229,203
Total Purchased Power		16,922,124	18,318,104	1,395,980
Less:	FAC Charge	1,896,095	2,402,079	505,984
	Surcharge Cost	1,386,387	1,146,630	(239,757)
Base Rate Revenue		13,639,642	14,769,395	1,129,753
Gross Margin		7,159,642	6,259,092	(900,550)

It is readily apparent that the gross margin has decreased by $900,560 between 2007 and 2008. One major element that has been identified is the significant change in line losses between 2007 and 2008. In 2007 the line loss percentage was 5.41% and 9.63% in 2008. Listed below are the line losses percentages for several years.

LICKING VALLEY RECC
LINE LOSS HISTORY 2002-2008

YEAR	PURCHASES	SALES	COOP USED	LINE LOSSES	LOSS PERCENT
2002	262,540,536	244,403,320	192,695	17,944,521	6.83%
2003	262,662,061	244,130,425	188,573	18,343,063	6.98%
2004	268,509,875	250,492,566	182,483	17,834,826	6.64%
2005	282,031,855	265,361,000	199,180	16,471,675	5.84%
2006	271,500,850	279,309,391	176,504	(7,985,045)	-2.94%
2007	285,067,487	269,506,439	151,306	15,409,742	5.41%
2008	285,823,474	258,133,165	165,479	27,524,830	9.63%

If Licking Valley were to have the same line loss factor for 2008, it is estimated that purchased power costs may have been approximately $800,000 less than what was actually incurred. Provided below is the calculation of this estimate.

TEST YEAR	kWh	$$	Average Cost
Purchases	285,781,774	18,381,104	0.064318671
kWh Purchase with line loss of		5.41%	273,071,830
Decrease in	Line Losses		12,709,944
	Rate		0.064318671
Reduction in Power Cost			$ 817,487
Formula for new line losses is sales plus coop use divided by 1005 minus a line loss of 5.41%			

The above estimated reduction in power cost of $817,487 goes a significant way in explaining the change in gross margin where gross margin is defined as base rate revenue minus base rate wholesale power cost. As mentioned earlier, the line loss situation experienced in 2007 is abnormally low while the experience for 2008, the test year seems to be more representative based on recent line losses for 12 month periods. Licking Valley believes two things in regards to these line losses. One, the line loss percentage of 2007 was very abnormally low. And two, the line loss percentage for 2008 seems to be the norm for the current situation. Licking Valley has the intent to bring this line loss percentage down.