

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

ORDER

On April 8, 2021, the Commission issued a final Order in this proceeding adjusting the rates of Licking Valley Rural Electric Cooperative Corporation (Licking Valley RECC). On April 21, 2021, Licking Valley RECC filed for rehearing of the Commission's April 8, 2021 streamlined final Order arguing that the Order is inconsistent with precedent and will create an unnecessary hardship.¹ Licking Valley RECC requests that the Commission grant the rate increase to the customer charge as Licking Valley RECC had originally requested, as well as increase the time in which Licking Valley RECC is to file a full rate case from one year to three years.² The Attorney General of the Commonwealth of Kentucky, through his Office of Rate Intervention (Attorney General) filed a response to Licking Valley RECC's motion and requested that the Commission grant the motion in part and deny in part.³ The Attorney General agrees with Licking Valley RECC's request

¹ Licking Valley RECC's Motion for Rehearing (filed Apr. 12, 2021) (Motion for Rehearing) at 3.

² *Id.* at 1.

³ The Attorney General's Response to Licking Valley Rural Electric Cooperative Corporation's Motion for Rehearing (filed Apr. 27, 2021) (Attorney General's Response) at 1.

for additional time in which to file a general rate case;⁴ however, the Attorney General opposes Licking Valley RECC's request that the Commission should increase the customer charge.⁵

BACKGROUND

Licking Valley RECC, in its application for an adjustment of rates, requested a rate increase of 2.21 percent (\$595,560) to meet a Times Interest Earned Ratio (TIER) of 1.38 and an Operational Times Interest Earned Ratio (OTIER) of 1.3. Licking Valley RECC proposed to allocate the entire increase to the residential class by increasing the customer charge from \$14.00 to \$17.09 and make no change to the energy charge. The Commission, in the April 8, 2021 Order, rejected Licking Valley RECC's proposal and ordered (1) a revenue increase of 3.00 percent or \$795,228;⁶ (2) that the entire increase be placed on the residential energy charge, instead of the customer charge as Licking Valley RECC had proposed, resulting in an increase of the average customer bill from \$101.59 to \$105.72;⁷ and (3) Licking Valley to file a traditional rate case within 12 months of the date of the final Order due to concern over Licking Valley's long-term financial health.⁸ In the April 8, 2021 Order, the Commission noted its preference for the zero-intercept method and removed the customer related portions so that the allocation was

⁴ *Id.* at 1–4

⁵ *Id.* at 4–7.

⁶ Final Order (Ky. PSC Apr. 8, 2021) at 17.

⁷ *Id.* at 12.

⁸ *Id.* at 18.

100 percent demand in those distribution plant accounts that applied the minimum system method.⁹

Licking Valley RECC argues that removing the customer expense allocations associated with distribution plant account and applying 100 percent of the increase to the customer charge is arbitrary and inconsistent with Commission precedent and the National Association of Regulatory Utility Commissioners (NARUC) Industry Standards.¹⁰ Licking Valley argues, *inter alia*, that (1) the Commission erred by not accepting the minimum system method for pole, towers, fixtures, overhead conductors and devices, and underground conductors and devices;¹¹ (2) the minimum system method is a reasonable alternative to zero-intercept according the NARUC Cost Allocation Manual;¹² (3) the Commission ignored Licking Valley's testimony regarding use of minimum system method and use of minimum system is uncontested in this proceeding;¹³ (4) no evidence in the record supports the Commission's allocation of 100 percent of the increase to the energy charge and the only evidence supports use of the minimum system method which results in allocation of increase to customer charge and not the energy charge;¹⁴ and (5) it is unreasonable to conclude that there are no customer related costs for the distribution system and removing customer-related percentage and considering all costs as

⁹ *Id.* at 11.

¹⁰ Motion for Rehearing at 3.

¹¹ *Id.* at 4.

¹² *Id.*

¹³ *Id.* at 5.

¹⁴ *Id.*

100 percent demand is unreasonable.¹⁵ Licking Valley RECC also argues that allocating 100 percent increase to the energy charge negatively affects low-income customers who are among the highest energy users.¹⁶

Based on the above arguments, Licking Valley RECC requests that the Commission either increase the customer charge by the amount necessary to generate the revenues calculate by the Commission or accept the customer charge increase from \$14.00 to \$17.09, as Licking Valley proposed in its application.¹⁷

Licking Valley RECC, in support of its request that the Commission extend the time in which to file a general rate case, argues that filing within one year of the April 8, 2021 Order will not allow Licking Valley RECC to capture recent efforts it has taken to contain costs.¹⁸ Licking Valley RECC asserts that it has engaged in significant cost cutting including (1) repurposing old equipment; (2) increasing employee contributions for insurance; (3) reduced labor costs; (4) implementation of advanced meter infrastructure; and; (5) standardization employee benefits and wages.¹⁹ Licking Valley RECC asserts that if it is required to file a traditional rate case within one year, the historical test year will not capture the full extent of the cost cutting and limiting measures.²⁰

Licking Valley RECC also argues that requiring a general rate case within one year will create a hardship on Licking Valley RECC's customers because it will result in three

¹⁵ *Id.* at 6–7.

¹⁶ *Id.* at 7–8.

¹⁷ Motion for Rehearing at 8.

¹⁸ *Id.* at 8.

¹⁹ *Id.* at 8–9.

²⁰ *Id.* at 10.

base rate increases in approximately two years. The potential rate increases are (1) the current rate increase ordered by Commission resulting in a 4.06 percent increase; (2) the proposed wholesale rate increase of 3.27 percent proposed by East Kentucky Power Cooperative;²¹ and (3) the general rate case ordered by the Commission in this proceeding to be filed within a year.²²

DISCUSSION

The Commission, after consideration, agrees with both Licking Valley RECC and the Attorney General with regard to requiring Licking Valley RECC to file a general rate case within the next year. Both correctly point out that this could subject Licking Valley RECC's customers to three rate increases within approximately two years. While this does not alleviate our concern over Licking Valley RECC's financial health, balancing that against the interests of Licking Valley RECC's customers, the Commission finds that the April 8, 2021 Order should be amended and Licking Valley RECC should file an application for a general rate case no later than three years from the date of entry of this Order.

The Commission does not agree with Licking Valley RECC's argument that its Cost of Service Study and the minimum system method support allocating the rate increase solely to the residential customer charge and find that its request with regard to changing the customer charge should be denied. However, because the Commission is granting Licking Valley RECC's request to extend the period of time in which to file a general rate

²¹ Case No. 2021-00103, *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* (filed Apr. 1, 2021), Application.

²² Motion for Rehearing at 10.

case, Licking Valley RECC will require additional revenue stability in the meantime. The Commission has previously held and explained that for an electric distribution cooperative, such as Licking Valley RECC, “there is merit to the argument that there is a need for a means to guard against the revenue erosion that often occurs due to the decrease in sales volumes that accompanies poor regional economics, changes in weather patterns, and the implementation or expansion of demand-side management and energy efficiency programs.”²³ The Commission, as discussed *supra*, does not agree with Licking Valley RECC’s arguments regarding allocating the entire rate increase to the customer class, but given our concerns over Licking Valley RECC’s financial health, there is a need for revenue stability before the next general rate case. Therefore, the Commission finds that it is reasonable that the monthly residential customer charge for Licking Valley RECC should be increased to \$16.00, and the energy charge should be decreased by a corresponding amount. Increasing the customer charge to \$16.00 results in rates that are fair, just and reasonable, and necessary for Licking Valley RECC, until it files its next general rate case, to provide adequate, efficient and reasonable service. Based upon Licking Valley RECC’s average monthly usage of 969 kWh, the average monthly bill for residential customers will increase by \$4.13 from \$101.69 to \$105.72, or 4.06 percent.

All other aspects of the April 8, 2021 Order not addressed herein are in full force and effect.

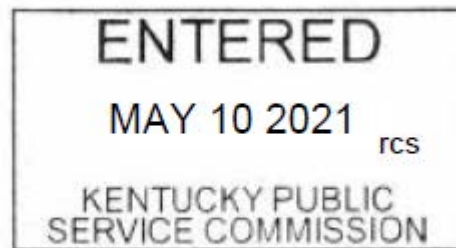
²³ Case No. 2016-00367, *Application of Nolin Rural Electric Cooperative Corporation for a General Rate Increase* (Ky. PSC June 21, 2017) at 15.

IT IS THEREFORE ORDERED that:

1. Licking Valley RECC's motion for rehearing of the April 8, 2021 Order is granted in part and denied in part.
2. Licking Valley RECC shall file a general adjustment of rates within three years of the date of service of this Order.
3. The rates set forth in the Appendix to this Order are approved for services rendered by Licking Valley RECC on and after May 12, 2021.
4. This case is closed and removed from the Commission's docket.

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By the Commission



ATTEST:


Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2020-00338 DATED MAY 10 2021

The following rates and charges are prescribed for the customers served by Licking Valley RECC. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of this Commission prior to the effective date of this Order.

SCHEDULE I – RESIDENTIAL, FARMS, SMALL COMMUNITY HALL & CHURCHES

Customer Charge per Month	\$16.00
Energy Charge per kWh	\$ 0.092587

PREPAY SERVICE

Customer Charge per Month	\$3.00
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NONRECURRING CHARGES

Reconnect Fee	\$17.40
Returned Check	\$10.60

POLE ATTACHMENT FEES

Two-party Attachment	\$7.44
Three-Party Attachment	\$6.08
Two-Party Anchor	\$7.98
Three-Party Anchor	\$5.26
Two-Party Grounding	\$0.21
Three-Party Grounding	\$0.13

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