

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

ORDER

On August 8, 2024, Licking Valley Rural Electric Cooperative Corporation (Licking Valley RECC) filed an application requesting to increase its rates pursuant to KRS 278.180, KRS 278.190, and 807 KAR 5:001, Section 16(1)(b)(1).<sup>1</sup>

PROCEDURAL HISTORY

By Order entered August 16, 2024, the Commission suspended the proposed rates up to and including February 8, 2025, and established a procedural schedule.<sup>2</sup> The Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General), was granted full intervention by Order dated August 12, 2024, and is the only intervenor in this case.<sup>3</sup> Licking Valley RECC responded to three requests for information from Commission Staff<sup>4</sup> and two requests for information from

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<sup>1</sup> Application (filed Aug. 8, 2024) at 2-3.

<sup>2</sup> Order (Ky. PSC Aug. 16, 2024).

<sup>3</sup> Order (Ky. PSC Aug. 12, 2024).

<sup>4</sup> Licking Valley RECC's Response to Commission Staff's First Request for Information (Response to Staff's First Request) (filed Aug. 22, 2024); Licking Valley RECC's Response to Commission Staff's Second Request for Information (Response to Staff's Second Request) (filed Sep. 18, 2024); Licking Valley RECC's Response to Commission Staff's Third Request for Information (Response to Staff's Third Request) (filed Oct. 16, 2024).

the Attorney General.<sup>5</sup> The Attorney General also filed testimony on October 30, 2024.<sup>6</sup> By Order entered on December 18, 2024, a hearing was scheduled for February 4, 2025, at the offices of the Public Service Commission at 211 Sower Boulevard, Frankfort, Kentucky.<sup>7</sup> On February 4, 2025, the Commission held a hearing in this matter. A post-hearing procedural schedule was filed on February 6, 2025.<sup>8</sup> On February 7, 2025, Licking Valley RECC filed a notice of intent to place rates into effect, subject to refund, effective on or after February 13, 2025.<sup>9</sup> Licking Valley RECC responded to one round of post-hearing requests for information from Commission Staff<sup>10</sup> and one round of post-hearing requests for information from the Attorney General.<sup>11</sup> Licking Valley RECC<sup>12</sup> and the Attorney General both filed briefs on March 14, 2025.<sup>13</sup> The matter now stands submitted to the Commission for a decision.

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<sup>5</sup> Licking Valley RECC's Response to the Attorney General's First Request for Information (Response to Attorney General's First Request) (filed Sep. 18, 2024); Licking Valley RECC's Response to the Attorney General's Second Request for Information (Response to Attorney General's Second Request) (filed Oct. 16, 2024).

<sup>6</sup> Direct Testimony of Randy Futral (Futral Direct Testimony) (filed Oct. 30, 2024).

<sup>7</sup> Order (Ky. PSC Dec. 18, 2024).

<sup>8</sup> Order (Ky. PSC Feb. 6, 2025).

<sup>9</sup> Licking Valley RECC's Notice of Intent to Place Rates into Effect (filed Feb. 7, 2025).

<sup>10</sup> Licking Valley RECC's Response to Staff's Post-hearing Request for Information (Response to Staff's Post-hearing Request) (filed Feb. 24, 2025).

<sup>11</sup> Licking Valley RECC's Response to the Attorney General's Post-hearing Request for Information (Response to Attorney General's Post-hearing Request) (filed Feb. 24, 2025).

<sup>12</sup> Licking Valley RECC's Brief (filed Mar. 14, 2025).

<sup>13</sup> Attorney General's Brief (filed Mar. 14, 2025).

## LEGAL STANDARD

Licking Valley RECC filed its application for an adjustment of rates pursuant to KRS 278.180, KRS 278.190, and 807 KAR 5:001, Section 16(1)(b)(1). The Commission's standard of review for a utility's request for a rate increase is whether the proposed rates are "fair, just and reasonable."<sup>14</sup> Licking Valley RECC bears the burden of proof to show that the proposed rate is just and reasonable under the requirements of KRS 278.190(3).

Commission regulation 807 KAR 5:001, Section 16(1), requires that an application requesting a general adjustment of existing rates using a historical test period must be supported by a "twelve months historical test period that may include adjustments for known and measurable changes."

## BACKGROUND

Licking Valley RECC is a not-for-profit, member-owned, rural electric distribution cooperative organized under KRS Chapter 279.<sup>15</sup> Licking Valley RECC is engaged in the business of distributing retail electric power to approximately 12,193 members in the Kentucky counties of Breathitt, Elliott, Lee, Magoffin, Menifee, Morgan, Rowan, and Wolfe.<sup>16</sup>

In its application, Licking Valley RECC requested an increase in revenues of \$2,836,901, or a 7.50 percent increase, to achieve a Times Interest Earned Ratio (TIER) of 2.00.<sup>17</sup> This increase would result in total revenues of \$795,228. Licking Valley RECC

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<sup>14</sup> KRS 278.030; *Pub. Serv. Comm'n v. Com. ex rel. Conway*, 324 S.W.3d 373, 377 (Ky. 2010).

<sup>15</sup> Application at 1.

<sup>16</sup> Application at 1.

<sup>17</sup> Application, Direct Testimony of Sandra Bradley (Bradley Direct Testimony) (filed Aug. 8, 2024), Exhibit 9, at 3.

also requested an increase in the monthly residential customer charge from \$16.50 to \$30.00,<sup>18</sup> and an increase in the monthly residential energy charge from \$0.095503 per kWh to \$0.096243 per kWh.<sup>19</sup> In addition, Licking Valley RECC requested an increase in the Small Commercial customer charge from \$29.66 to \$32.00, with the Small Commercial energy charge increasing from \$0.081330 per kWh to \$0.081396 per kWh.<sup>20</sup> Finally, Licking Valley RECC requested to recover reasonable rate case expense, amortized over a three-year period.<sup>21</sup> Licking Valley RECC's last rate case was under the streamlined procedure filed in Case No. 2020-00338, in which the Commission approved a \$795,228 increase in revenues, or 3 percent, and an Operating Times Interest Earned Ratio (OTIER) of 1.58 and Times Interest Earned Ratio (TIER) of 1.67.<sup>22</sup>

#### TEST PERIOD

Licking Valley RECC used a historical test year ending December 31, 2023.<sup>23</sup> The Attorney General did not contest the use of this test period. The Commission finds that it is reasonable to use the 12-month period ending December 31, 2023, as the test period in this case based on the timing of Licking Valley RECC's application.

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<sup>18</sup> Bradley Direct Testimony at 4.

<sup>19</sup> Bradley Direct Testimony at 8-9.

<sup>20</sup> Bradley Direct Testimony at 9.

<sup>21</sup> Application at 8.

<sup>22</sup> Case No. 2020-00338, *Electronic Application of Licking Valley Rural Electric Cooperative Corporation for A General Adjustment of Rates Pursuant to Streamlined Procedure Pilot Program Established in Case No. 2018-00407* (Ky. PSC Apr. 8, 2021) Order at Appendix A.

<sup>23</sup> Application at 2.

## TESTIMONY ON BEHALF OF LICKING VALLEY RECC

Licking Valley RECC provided direct testimony of John Wolfram,<sup>24</sup> Sandra Bradley,<sup>25</sup> and Kerry Howard<sup>26</sup> in support of its application. Mr. Wolfram, Principal of Catalyst Consulting, provided expert testimony regarding the development of Licking Valley RECC's revenue requirement, cost of service study (COSS), and proposed rate design.<sup>27</sup> He explained that Licking Valley's proposed revenue increase of \$2,836,901 was necessary to achieve a 2.00 TIER<sup>28</sup> and that the COSS justified the proposed rate allocations, including the increase in the residential monthly customer charge from \$16.50 to \$30.00.<sup>29</sup> Mr. Wolfram supported pro forma adjustments for known and measurable changes and stated his opinion that these adjustments were consistent with Commission precedent and regulatory standards.<sup>30</sup>

Sandra Bradley, Licking Valley RECC's Finance and Accounting Manager, provided direct testimony regarding the utility's operating expenses, pro forma adjustments, and rate case expense.<sup>31</sup> She supported the need for increased revenues due to rising operational costs and declining energy sales.<sup>32</sup> Ms. Bradley also addressed

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<sup>24</sup> Direct Testimony of John Wolfram (Wolfram Direct Testimony) (filed Aug. 8, 2024) at Application, Exhibit 10.

<sup>25</sup> Bradley Direct Testimony at Application, Exhibit 9.

<sup>26</sup> Direct Testimony of Kerry Howard (Howard Direct Testimony) (filed Aug. 8, 2024) at Application, Exhibit 8.

<sup>27</sup> Wolfram Direct Testimony at 3-4.

<sup>28</sup> Wolfram Direct Testimony, Exhibit JW-9.

<sup>29</sup> Wolfram Direct Testimony at 23-25 and JW-9.

<sup>30</sup> Wolfram Direct Testimony at 26.

<sup>31</sup> Bradley Direct Testimony at 2.

<sup>32</sup> Bradley Direct Testimony at 5.

payroll and health insurance costs, director expenses, and depreciation.<sup>33</sup> Ms. Bradley did not attend the hearing on February 4, 2025.<sup>34</sup> As a result, Ms. Bradley's direct testimony was adopted by John May, Manager of Administrative Services, and Travis Stacy, Manager of Corporate Services, who were present to answer questions related to the direct testimony and any responses to requests for information sponsored by Ms. Bradley.<sup>35</sup>

Kerry Howard, Licking Valley's General Manager, provided direct testimony regarding operational challenges facing the cooperative, including financial constraints, staffing, and efforts to maintain service quality.<sup>36</sup> He addressed issues related to slow member growth, stagnant energy sales, employment policies, and staffing levels.<sup>37</sup> Mr. Howard also discussed how Licking Valley has complied with Commission rules, including its handling of payment arrangements and tariff obligations. Mr. Howard also stated that the requested increase is needed for Licking Valley RECC to meet its loan covenants.<sup>38</sup>

#### TESTIMONY ON BEHALF OF INTERVENOR

Randy Futral, a consultant with J. Kennedy and Associates, testified on behalf of the Attorney General.<sup>39</sup> He recommended reducing the proposed revenue increase by

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<sup>33</sup> Bradley Direct Testimony at 5-6.

<sup>34</sup> The Witness List filed by Licking Valley RECC stated simply Ms. Bradley would not be at the hearing. However, no request was made to excuse her.

<sup>35</sup> Licking Valley RECC's Witness List (filed Jan. 28, 2025).

<sup>36</sup> Howard Direct Testimony at 2-3.

<sup>37</sup> Howard Direct Testimony at 4-5.

<sup>38</sup> Howard Direct Testimony at 6.

<sup>39</sup> Futral Direct Testimony (filed Oct. 30, 2024).

\$233,415, from \$2,836,945 to \$2,603,530.<sup>40</sup> His testimony focused on correcting payroll tax expenses and reducing depreciation expenses related to fully depreciated general plant and transportation equipment items.<sup>41</sup> Mr. Futral's adjustments were based on discovery responses and inconsistencies in the company's Reference Schedule 1.07.<sup>42</sup> He also emphasized the need for the Commission to rely on actual recorded depreciation rather than overstated normalized amounts.<sup>43</sup>

### BRIEF SUMMARIES

In its post-hearing brief, Licking Valley RECC reiterated that the proposed rate adjustment was necessary due to a combination of increased operating expenses and decreased energy sales, which negatively impacted the utility's financial condition. Licking Valley RECC defended its proposed increase in the residential customer charge from \$16.50 to \$30.00, citing the cost of service study (COSS) and the need for revenue stability.<sup>44</sup> The cooperative argued that its pro forma adjustments were based on known and measurable changes and were supported by precedent.<sup>45</sup> Licking Valley RECC also addressed concerns about employee hiring practices<sup>46</sup> and tariff compliance, stating that any issues raised by the Attorney General did not violate statutory or ethical obligations.<sup>47</sup>

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<sup>40</sup> Futral Direct Testimony at 5, Table 1.

<sup>41</sup> Futral Direct Testimony at 5-6 and 7-10.

<sup>42</sup> Futral Direct Testimony at 18 and Exhibit RAF-5.

<sup>43</sup> Futral Direct Testimony at 19.

<sup>44</sup> Licking Valley RECC's Brief at 1.

<sup>45</sup> Licking Valley RECC's Brief at 2.

<sup>46</sup> Licking Valley RECC's Brief at 3-4.

<sup>47</sup> Licking Valley RECC's Brief at 4-5.

The Attorney General's post-hearing brief supported the testimony of Mr. Futral and urged the Commission to adopt his recommended revenue requirement of \$2,603,530.<sup>48</sup> The Attorney General argued that Licking Valley RECC's proposed fixed residential charge increase was too severe and would disproportionately impact low-usage customers and those struggling financially.<sup>49</sup> Citing the Commission's reliance on the principle of gradualism, the Attorney General recommended a more modest adjustment to the customer charge.<sup>50</sup> The brief also emphasized that Licking Valley RECC's witnesses did not rebut Mr. Futral's proposed adjustments, and that the cooperative agreed with his depreciation correction during the hearing.<sup>51</sup>

### REVENUE REQUIREMENT

Licking Valley RECC proposed 14 adjustments to normalize its test-year operating revenues and expenses. As discussed in more detail below, the Commission finds that nine of the proposed adjustments, which the Attorney General did not contest, are reasonable and should be accepted without change. Shown below are the Commission approved adjustments to net margins:

- Fuel Adjustment Clause (FAC) - \$(230,292)
- Environmental Surcharge - \$(170,319)
- Year-End Customer Normalization - \$257,834
- G&T Capital Credits - \$(402,409)

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<sup>48</sup> Attorney General's Brief at 1-2.

<sup>49</sup> Attorney General's Brief at 2.

<sup>50</sup> Attorney General's Brief at 2.

<sup>51</sup> Attorney General's Brief at 1-2.



- Directors Expense – \$24,087
- Life Insurance Premiums - \$19,717
- Interest Expense - \$(21,647)
- Wages & Salaries - \$(49,770)
- Professional Services - \$16,799

Upon review of the case record, the Commission modified Licking Valley RECC's other proposed adjustments and made other adjustments as discussed in more detail below.

#### Rate Case Expense

Licking Valley RECC's proposed to increase test-year Rate Case Expense by \$53,333<sup>52</sup> based on a three-year amortization of the estimated Rate Case Expense of \$160,000. Licking Valley RECC was directed to file monthly updates to its Rate Case Expense with invoices,<sup>53</sup> with the last update, filed on April 17, 2025, for expenses through April 8, 2025, reflecting total expenses of \$64,728.<sup>54</sup>

The Commission finds that, based on the summaries last provided to the Commission and throughout the pendency of this case, the appropriate total Rate Case Expense is \$64,728. The Commission also finds that the appropriate amortization period is three years. The Commission has historically approved three-year amortization periods

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<sup>52</sup> Application, Exhibit JW-2, Wolfram Direct Testimony at 11.

<sup>53</sup> Response to Staff's First Request, Item 36.

<sup>54</sup> Monthly Rate Case Expense Update (filed Apr. 17, 2025).

for rate case expense.<sup>55</sup> This results in an increase of test year Rate Case Expense of \$21,576 or a \$31,757 reduction to Licking Valley RECC's proposed amortized adjustment amount of \$53,333. The Commission finds that this adjustment amount and amortization amount reflect Licking Valley RECC's actual rate case expense. Both the amount and the amortization period are reasonable and should be accepted.

### Health Insurance Premiums

Licking Valley RECC proposed a pro forma reduction of \$178,890 to Health Insurance expense to match the employee contribution percentage to the levels published by the U.S. Bureau of Labor Statistics (BLS).<sup>56</sup> Licking Valley's Test Year Health Insurance Premium expense was \$729,998.<sup>57</sup>

In Commission Staff's Third Request, Licking Valley RECC was asked to provide an updated calculation of its proposed Health Insurance Premiums adjustment using the most recent BLS average annual employee contribution percentages that were published on September 19, 2024.<sup>58</sup> Using the 2024 updated BLS employee contribution percentages, Licking Valley RECC calculated a pro forma reduction of \$170,893 to Health Insurance expense.<sup>59</sup>

The Commission finds that Licking Valley RECC's proposed adjustment of \$178,890 for Health Insurance Premiums should be reduced to \$170,893 based on the

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<sup>55</sup> See Case No. 2024-00010, *Electronic Application of Morgan County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Oct. 25, 2024), final Order at 26-27 explaining that three years is the historically approved time as it is the expected time between utility rate cases.

<sup>56</sup> Application, Exhibit JW-2, Wolfram Direct Testimony at 12.

<sup>57</sup> Application, Schedule 1.06.

<sup>58</sup> Response to Staff's Third Request, Item 1.

<sup>59</sup> Response to Staff's Third Request, Item 1b.

most recent information available in this case. The 2024 BLS contribution rates provide a more accurate representation of the national average of annual employee contribution percentages. Neither Licking Valley RECC nor the Attorney General disputed the manner of calculation for this adjustment, and as such, the Commission finds an adjustment based on the more recently published September 19, 2024 report is reasonable, and the pro forma Health Insurance Premium amount of \$551,108 is accepted.

### Depreciation

Licking Valley RECC proposed a \$239,443 increase to Depreciation Expense by replacing test year actual expenses with test year-end balances at approved depreciation rates.<sup>60</sup> Licking Valley's Test Year Depreciation expense was \$3,207,641.<sup>61</sup>

The Attorney General's witness recommended a \$207,176 reduction in Licking Valley RECC's proposed increase to depreciation expense because Licking Valley RECC included line items in its pro forma depreciation expense calculation that should have been fully depreciated.<sup>62</sup> Instead of Licking Valley RECC's proposed \$239,443 increase, the Attorney General recommended a \$32,267 increase to depreciation expense. Licking Valley RECC agreed with the Attorney General's proposed adjustment during the hearing.<sup>63</sup>

The Commission finds that Licking Valley RECC's proposed \$239,443 increase to Depreciation Expense should be denied, and the Attorney General's proposed increase

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<sup>60</sup> Application, Exhibit JW-2, Wolfram Direct Testimony at 12.

<sup>61</sup> Application, Schedule 1.07.

<sup>62</sup> Futral Direct Testimony, Page 7-20.

<sup>63</sup> Hearing Video Transcript (HVT) of the Feb. 4, 2025 Hearing, John Wolfram, at 09:34:50-09:36:22. See also Attorney General's Brief at 1-2.

of \$32,267 to depreciation expense for a total depreciation expense of \$3,239,908 should be accepted. The Commission notes that fully depreciated items should not be included toward the calculation of depreciation expense.

#### Donations, Advertising & Dues

Licking Valley RECC proposed a \$212,373 decrease to Donations, Promotional Advertising, and Dues for a total pro forma expense of \$221,360<sup>64</sup> pursuant to 807 KAR 5:016.<sup>65</sup>

In Commission Staff's Third Request for Information, Licking Valley RECC was asked to provide updated amounts for the proposed adjustment to reconcile the account information that was provided in response to Commission Staff's First Request for Information.<sup>66</sup> Licking Valley RECC provided an updated Donations, Promotional Advertising, and Dues adjustment that reflected the actual account information filed in the case. The revised adjustment reflects a \$201,812 decrease instead of the originally proposed decrease of \$212,373.<sup>67</sup>

The Commission finds that Licking Valley RECC's original proposed decrease to \$212,373 Donations, Promotional Advertising, and Dues expense should be reduced to a decrease of \$201,812 for a pro forma expense of \$19,548 to better reflect Licking Valley RECC's actual incurred costs associated with 807 KAR 5:016. The Commission finds

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<sup>64</sup> Response to Staff's Second Request, Item 44.

<sup>65</sup> Application, Exhibit JW-2, Wolfram Direct Testimony at 12.

<sup>66</sup> Response to Staff's Third Request, Item 2.

<sup>67</sup> Response to Staff's Third Request, Item 2.

this adjustment to be reasonable and reflects items normally disallowed in rates for recovery.

### Payroll Taxes

Licking Valley RECC proposed a \$28,988 increase to Payroll Taxes<sup>68</sup> to reflect the proposed increase in Salary & Wages expense for a total pro forma Payroll Taxes expense of \$127,452.<sup>69</sup>

In response to the Attorney General's First Request for Information, Licking Valley RECC acknowledged an error in the calculation of the proposed Payroll Tax increase.<sup>70</sup> Licking Valley RECC stated that the test year amounts on line 46 were incorrect.<sup>71</sup> The corrected Payroll Taxes increase should be \$2,750.<sup>72</sup>

The Commission finds Licking Valley RECC's proposed \$28,988 increase in Payroll Taxes should be reduced to \$2,750, resulting in a total pro forma expense of \$150,359<sup>73</sup> to reflect the actual test year amounts for Payroll Taxes.

### REVENUE REQUIREMENT SUMMARY

The Commission authorizes a rate increase of \$2,590,331, which represents a 7.83 percent increase. The pro forma adjustments and revenue requirement calculation are found in Appendix A. The effects of the adjustments on Licking Valley RECC's net

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<sup>68</sup> Application, Exhibit JW-2, Wolfram Direct Testimony at 14.

<sup>69</sup> Test Year Amount from Response to the Attorney General's First Item 15 \$238,420 X Capitalization Rate of 61.91% = \$147,609.

<sup>70</sup> Response to Attorney General's First Request, Item 58.

<sup>71</sup> Response to Attorney General's First Request, Item 58b-c.

<sup>72</sup> Response to Attorney General's First Request, ATTACHMENT AG 1-58(a).

<sup>73</sup> Proforma Amount from Response to the Attorney General's First Item 15 \$242,862 X Capitalization Rate of 61.91% = \$150,359.

income result in utility operating margins of \$1,379,521 based upon total operating revenues of \$33,400,814, a total cost of electric service of \$32,021,293, and resulting net margins of \$1,596,448. The resulting credit metrics are a 2.0 TIER, a 1.86 OTIER, and a debt service coverage ratio of 1.86, all of which will give Licking Valley RECC a reasonable margin to achieve its debt covenants.<sup>74</sup>

#### COST OF SERVICE STUDY (COSS)

Licking Valley RECC filed a fully allocated COSS based upon the 12 Coincident Peak (12 CP) methodology, to mirror the basis of cost allocation used in the applicable EKPC wholesale tariff, in order to determine the cost to serve each customer class.<sup>75</sup> With the 12 CP methodology, Licking Valley RECC explained that demand related costs are allocated on the basis of the demand for each rate class at the time of Licking Valley RECC's system peak CP for each of the 12 months and customer related costs are allocated on the basis of the average number of customers served in each rate class during the test year.<sup>76</sup>

For the distribution components, the zero-intercept method was used to determine the customer components of overhead conductor, underground conductor, and line transformers.<sup>77</sup> The COSS analysis resulted in Licking Valley RECC's overall Rate of Return (ROR) on Rate Base and a determination of the relative Rates of Return that

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<sup>74</sup> Attorney General provided no testimony against a 2.0 TIER.

<sup>75</sup> Wolfram Direct Testimony at 19.

<sup>76</sup> Wolfram Direct Testimony at 19.

<sup>77</sup> Wolfram Direct Testimony at 17.

Licking Valley RECC is earning from each rate class.<sup>78</sup> The proposed Revenue Allocation for each rate class with the ROR is illustrated below:<sup>79</sup>

Rate Class	Revenue Increase	Return on Rate Base	Unitized Return on Rate Base
Residential- A	\$2,811,906	2.47%	0.43
Small Commercial- B	\$24,995	2.47%	0.43
Large Commercial- LP	\$0	28.82%	5.05
Large Commercial Rate- LPR	\$0	16.52%	2.89
Lighting- SL	\$0	37.38%	6.54
Large Power - LPG	\$0	NA	NA
TOTAL	\$2,836,901	5.71%	1.00

Licking Valley RECC's COSS also determined the cost-based rates for each of Licking Valley RECC's rate classes. In particular, the COSS shows that the current rate design for the residential class and the small commercial class does not produce revenues relative to its cost to serve. Illustrated below are the cost-based rates results.<sup>80</sup>

Rate Class	Customer Charge \$/Month	Energy Charge \$/kWh	Demand Charge \$/kW
Residential - A	31.62	0.096014	NA
Small Commercial – B	32.73	0.088056	NA
Large Commercial - LP	35.76	0.051913	6.86
Large Commercial Rate - LPR	32.42	0.052072	6.60

Having reviewed Licking Valley RECC's COSS, the Commission accepts Licking Valley RECC's proposal to use the 12 CP method as a guide to determine revenue

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<sup>78</sup> Wolfram Direct Testimony at 15.

<sup>79</sup> Wolfram Direct Testimony, Exhibit JW-3 at 1 and Exhibit JW-9 at 1.

<sup>80</sup> Wolfram Direct Testimony, Exhibit JW-3 at 2.

allocation. However, the Commission made additional adjustments requiring changes to the rate allocation and design as discussed in more detail below.

### REVENUE ALLOCATION AND RATE DESIGN

Based on the results of the COSS, Licking Valley RECC stated that the ROR for the residential class indicates that existing rates are too low, creating subsidization between the other rate classes and residential, meaning that other classes are bearing the burden of expenses the utility incurs to serve the residential class.<sup>81</sup> Therefore, Licking Valley RECC stated that, according to the results of the COSS, the need to increase rates is limited to the residential class.<sup>82</sup> Licking Valley RECC's COSS supported a residential customer charge of \$31.62.<sup>83</sup> Licking Valley RECC further stated that Licking Valley RECC's Board of Directors decided to prioritize the principle of cost causation over the principle of gradualism in this case, citing a trend in Commission orders awarding small increases to the residential customer charge.<sup>84</sup> Therefore, Licking Valley RECC proposed a \$30.00 residential customer charge and a \$0.096243 per kWh residential energy charge.<sup>85</sup>

Additionally, Licking Valley RECC stated that the Commission has indicated a preference for avoiding a rate structure where the Small Commercial class pays a monthly customer charge less than the residential class, so Licking Valley RECC proposed to

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<sup>81</sup> Wolfram Direct Testimony at 21.

<sup>82</sup> Wolfram Direct Testimony at 21.

<sup>83</sup> Wolfram Direct Testimony at 22.

<sup>84</sup> Response to Staff's Second Request, Item 7.

<sup>85</sup> Wolfram Direct Testimony at 23.



increase the Small Commercial customer charge from \$29.66 to \$32.00 per month.<sup>86</sup> The COSS supported a customer charge for the Small Commercial class of \$32.72.<sup>87</sup>

Licking Valley RECC argued in its brief that it chose to move closer to cost-based rates because Licking Valley RECC is facing declining sales and, without an increase to the cost-based rates for the customer charge, Licking Valley RECC would not be able to generate the required revenue to continue to provide the statutorily required service.<sup>88</sup> Licking Valley RECC further argued that members who can least afford an increase in rates use more energy due to poorly insulated homes.<sup>89</sup> Therefore, Licking Valley RECC stated that if the energy charge is adjusted upward to reach the desired revenue requirement, low-income residential customers will see a higher bill increase, and it will be more challenging to budget for the increase due to the volatility of the bills based on energy usage.<sup>90</sup>

The Attorney General argued in its brief that an increase of Licking Valley RECC's fixed customer charge by of 81.8 percent, from \$16.50 per month to \$30.00, could hinder the ability of residential customers to control their monthly electric bills, and pose a further financial hardship on those customers struggling to make ends meet.<sup>91</sup> The Attorney

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<sup>86</sup> Wolfram Direct Testimony at 24.

<sup>87</sup> Wolfram Direct Testimony, Exhibit JW-3 at 1.

<sup>88</sup> Licking Valley RECC's Brief at 6.

<sup>89</sup> Licking Valley RECC's Brief at 6.

<sup>90</sup> Licking Valley RECC's Brief at 6-7.

<sup>91</sup> Attorney General's Brief at 2.

General stated that the Commission should continue to rely upon the principle of gradualism when awarding any increase to the residential monthly customer charge.<sup>92</sup>

The Commission gives substantial weight to the evidence from the COSS that indicates the residential class is earning considerably less of a return relative to its cost to serve. The Commission acknowledges that the residential class is the only class with a negative ROR on Rate Base according to the COSS. The Commission notes that the cost-based rates determined by the COSS show a need for both the residential and small commercial classes to receive an increase in rates. The Commission agrees with Licking Valley RECC that the proposed revisions to the customer charges will help mitigate the under-recovery of fixed costs. The Commission wants to enable a customer to have the ability to control their energy bill, and arguably, that is easier when the increase results in an increased energy charge. The Commission also acknowledges the Attorney General's arguments regarding Licking Valley RECC's 81.8 percent increase to the residential customer charge. The Commission must weigh these factors and strike a balance between the customers' financial interest and the utility's ability to provide adequate, reliable service.

Based upon the Commission-approved revenue increase of \$2,590,331, the Commission finds the proposed allocation of revenue to the classes of service is not reasonable. Therefore, the Commission finds that the revenue allocation of the residential class needs to be addressed. The Commission notes that it has consistently found it reasonable to raise the customer charge in utility rate cases to better reflect the

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<sup>92</sup> Attorney General's Brief at 2.

fixed costs inherent in providing utility service.<sup>93</sup> However, the Commission has also found it reasonable to embrace the principle of gradualism in ratemaking, which mitigates the financial impact of rate increases on customers while providing reasonable rates.<sup>94</sup>

For Licking Valley RECC's residential customers, a rate design that does not support a revenue increase in the Small Commercial class will result in an average monthly bill increase higher than a rate design that does support a revenue increase in the Small Commercial class. Therefore, the Commission finds that a rate design that supports a revenue increase in the Small Commercial class is necessary to mitigate the financial impact on the residential customers.

The Commission finds that Licking Valley RECC's residential customer charge should increase from \$16.50 to \$27.50, which is a 66 percent increase. By increasing the customer charge \$11.00, it allows Licking Valley RECC to recover an additional \$2,184,490 in fixed revenue.<sup>95</sup> The residential energy charge will increase from \$0.095503 per kWh to \$0.097656 per kWh. Utilizing the Commission's revenue increase of \$2,590,331, for a residential customer with an average monthly usage of 891 kWh,<sup>96</sup> the average bill increases by \$12.92, or 10.4 percent, from \$101.59 to \$114.51. The changes in the rate design reflect a \$2,565,459, or 10.4 percent revenue increase for the residential class.

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<sup>93</sup> See Case No. 2024-00324, *Electronic Application for An Alternative Rate Adjustment for Jackson Energy Cooperative Pursuant to 807 KAR 5:078* (Ky. PSC Mar. 11, 2025), final Order at 14-15.

<sup>94</sup> See Case No. 2023-00147, *Electronic Application of Taylor County Rural Electric Cooperative Corporation for A General Adjustment of Rates* (Ky. PSC Apr. 5, 2024), final Order at 23.

<sup>95</sup> Additional fixed revenue is calculated by the following equation: (Billing Units x Approved Customer Charge) - (Billing Units x Current Customer Charge).

<sup>96</sup> Wolfram Direct Testimony, Exhibit JW-9 at 8.

The Commission finds the proposed rate increase for the Small Commercial class to be reasonable and finds that those rates should be approved as filed. The Small Commercial customer charge will increase from \$29.66 to \$32.00. The Small Commercial energy charge will increase from \$0.081330 per kWh to \$0.081396 per kWh. The increase in the rate design reflects a \$24,995, or 1.9 percent revenue increase for the Small Commercial class.

Due to Licking Valley RECC placing the proposed rates into effect on February 13, 2025, the Commission finds that Licking Valley RECC should refund its customers the actual amount each customer overpaid based on the actual usage of each customer during the timeframe that the utility was charging the higher rate. The Commission finds that the refund should be effectuated by the issuance a single bill credit per account, where feasible. The Commission finds that the refunds, whether bill credit or check, should be completed within 60 days of this Order.

IT IS THEREFORE ORDERED that:

1. The rates and charges proposed by Licking Valley RECC are denied.
2. The rates set forth in Appendix B to this Order are approved as fair, just, and reasonable rates for Licking Valley RECC, and these rates are approved for service rendered on and after the date of entry of this Order.
3. Licking Valley RECC is authorized to recover rate case expenses of \$64,728, amortized over a three-year period, resulting in an annual expense of \$21,576.
4. Within 60 days of the date of service of this Order, Licking Valley RECC shall refund to each customer all amounts collected from that customer in excess of the

rates approved in this Order for service rendered on or after February 13, 2025, through the date of entry of this Order.

5. Licking Valley RECC shall pay interest on the refunded amounts at the average of the Three-Month Commercial Paper Rate as reported in the Federal Reserve Bulletin and the Federal Reserve Statistical Release on the date of this Order. Refunds shall be based on each customer's usage while the proposed rates were in effect and shall be made as a one-time credit to the bills of current customers and by check to customers who have discontinued service since February 13, 2025.

6. Within 75 days of the date of this Order, Licking Valley RECC shall submit a written report to the Commission in which it describes its efforts to refund all monies collected in excess of the rates that are set forth in Appendix B to this Order.

7. Any documents filed with the Commission pursuant to Ordering Paragraph 6 shall be filed in the post-case documents in this case.

8. Within 20 days of the date of service of this Order, Licking Valley RECC shall file with the Commission, using the Commission's electronic Tariff Filing System, its revised tariffs setting out the rates approved in this Order and reflecting that they were authorized by this Order.

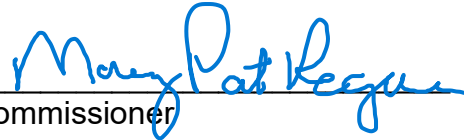
9. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION

Chairman

Vice-Chairman

Commissioner



ATTEST:

  
Executive Director



## APPENDIX A

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00211 DATED JUN 06 2025

#### Summary of Pro Forma Adjustments

	Licking Valley RECC	Licking Valley RECC Revised	Commission	Difference
Revenues				
Fuel Adjustment Clause	\$ (2,996,611)	\$ (2,996,611)	\$ (2,996,611)	\$ -
Environmental Surcharge	(3,233,287)	(3,233,287)	(3,233,287)	-
Year-End Customer Normalization	3,355,073	3,355,073	3,355,073	-
	(2,874,826)	(2,874,826)	(2,874,826)	-
Expenses				
Fuel Adjustment Clause	(2,766,319)	(2,766,319)	(2,766,319)	-
Environmental Surcharge	(3,062,968)	(3,062,968)	(3,062,968)	-
Rate Case Expenses	53,333	53,333	21,576	(31,757)
Year-End Customer Normalization	3,097,239	3,097,239	3,097,239	-
Health Insurance Premiums	(178,890)	(178,890)	(170,893)	7,997
Depreciation Expense Normalization	239,443	32,267	32,267	-
Donations, Advertising & Dues	(212,373)	(212,373)	(201,812)	10,561
Directors Expense	(24,087)	(24,087)	(24,087)	-
Life Insurance Premiums	(19,717)	(19,717)	(19,717)	-
Interest Expense	21,647	21,647	21,647	-
Wages & Salaries	49,770	49,770	49,770	-
Payroll Taxes	28,988	2,750	2,750	-
Professional Services	(16,799)	(16,799)	(16,799)	-
	(2,790,732)	(3,024,146)	(3,037,345)	(13,199)
Changes in Net Income	\$ (84,094)	\$ 149,320	\$ 162,519	\$ 13,199

Description	Actual Test Year	Pro Forma Adjustments	Pro Forma Test Yr	Proposed Rates
<u>Operating Revenues</u>				
Total Sales of Electric Energy	33,071,852	(2,874,826)	30,197,026	32,787,358
Other Electric Revenue	613,456	-	613,456	613,456
Total Operating Revenue	33,685,308	(2,874,826)	30,810,482	33,400,814
<u>Operating Expenses:</u>				
Purchased Power	22,444,020	(2,732,048)	19,711,972	19,711,972
Distribution Operations	2,104,832	-	2,104,832	2,104,832
Distribution Maintenance	3,940,837	-	3,940,837	3,940,837
Customer Accounts	746,294	-	746,294	746,294
Customer Service	21,473	-	21,473	21,473
Sales Expense	9,485	-	9,485	9,485
A&G	1,208,571	(359,211)	849,360	849,360
Total O&M Expense	30,475,512	(3,091,259)	27,384,253	27,384,253
Depreciation	2,882,776	32,267	2,915,043	2,915,043
Taxes - Other	37,583	-	37,583	37,583
Interest on LTD	1,574,801	21,647	1,596,448	1,596,448
Interest - Other	81,681	-	81,681	81,681
Other Deductions	6,285	-	6,285	6,285
Total Cost of Electric Service	35,058,638	(3,037,345)	32,021,293	32,021,293
Utility Operating Margins	(1,373,330)	162,519	(1,210,811)	1,379,521
Non-Operating Margins - Interest	51,360	-	51,360	51,360
Income(Loss) from Equity Investments	-	-	-	-
Non-Operating Margins - Other	-	-	-	-
G&T Capital Credits	402,409	(402,409)	-	-
Other Capital Credits	165,567	-	165,567	165,567
Net Margins	(753,994)	(239,890)	(993,884)	1,596,448
Cash Receipts from Lenders	-	-	-	-
OTIER	0.13		0.24	1.86
TIER	0.52		0.38	2.00
TIER excluding GTCC	0.27		0.38	2.00
Target TIER	2.00		2.00	2.00
Margins at Target TIER	1,574,801		1,596,448	1,596,448
Revenue Requirement	36,633,439		33,617,741	33,617,741
Revenue Deficiency (Excess)	2,328,795		2,590,331	0
Increase (\$)>				\$ 2,590,331
Increase (%)>				7.83%



## APPENDIX B

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00211 DATED JUN 06 2025

The following rates and charges are prescribed for the customers served by Licking Valley Rural Electric Cooperative Corporation. 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.

#### Residential- A

Customer Charge	\$27.50 per month
Energy Charge	\$0.097656 per kWh

#### Small Commercial- B

Customer Charge	\$32.00 per month
Energy Charge	\$0.081396 per kWh

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