

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF CUMBERLAND)	CASE NO.
VALLEY ELECTRIC, INC. FOR A RATE)	2024-00388
ADJUSTMENT PURSUANT TO 807 KAR 5:078)	

ORDER

On April 30, 2025,¹ Cumberland Valley Electric, Inc. (Cumberland Valley Electric) filed an application seeking an alternative rate adjustment pursuant to 807 KAR 5:078, with a proposed effective date of April 23, 2025. By Order dated April 30, 2025,² the Commission accepted Cumberland Valley Electric's application pursuant to 807 KAR 5:078 and established a procedural schedule for processing this case. By Order dated January 30, 2025, the Attorney General of the Commonwealth of Kentucky, through the Office of Rate Intervention (Attorney General), was granted intervention and is the only intervenor in the case.³

¹ Cumberland Valley Electric tendered its application on March 24, 2025. By Order dated April 4, 2025, the Commission rejected the application for filing deficiencies. Cumberland Valley Electric filed its response to deficiency, as well as a motion for deviation on April 4, 2025. The motion was granted by Order dated April 30, 2025, and the application was deemed filed as of the date of the Order.

² Order (Ky. PSC Apr. 30, 2025). The application having been accepted on April 30, 2025; the rates proposed by Cumberland Valley Electric could not become effective until May 30, 2025.

³ Order (Ky. PSC Jan. 30, 2025).

Cumberland Valley Electric responded to one request for information⁴ from Commission Staff and one request for information⁵ from the Attorney General. On June 9, 2025, both the Attorney General⁶ and Cumberland Valley Electric⁷ filed comments on Cumberland Valley Electric's application.

LEGAL STANDARD

Commission regulation 807 KAR 5:078 provides a streamlined process for Kentucky electric cooperatives to request modest rate adjustments. The regulation allows for simplified filings and expedited review compared to normal rate case proceedings and is designed to help cooperatives manage necessary rate changes efficiently. Among other things, 807 KAR 5:078 limits any increase to a maximum of 5 percent over existing rates and a maximum Operating Times Interest Earned Ratio (OTIER) of 1.85.

BACKGROUND

Cumberland Valley Electric is a nonprofit, member-owned rural electric cooperative corporation, organized under KRS Chapter 279. It is engaged in the distribution and sale of electric energy to 24,300 customers in Bell, Clay, Harlan, Knox, Laurel, Leslie, Letcher, McCreary, and Whitley counties, Kentucky.⁸ Cumberland Valley Electric does not own any electric generating facilities and is one of the 16-member cooperatives that own and receive wholesale power from East Kentucky Power

⁴ Cumberland Valley Electric's Response to Staff's First Request for Information (Staff's First Request) (filed May 29, 2025).

⁵ Cumberland Valley Electric's Response to the Attorney General's First Request for Information (Attorney General's First Request) (filed May 29, 2025).

⁶ Attorney General's Comments (filed June 9, 2025).

⁷ Cumberland Valley Electric's Comments (filed June 9, 2025).

⁸ Application at 1.

Cooperative. Cumberland Valley Electric filed for an adjustment of rates via a pilot program streamlined rate adjustment procedure (Pilot Program) in Case No. 2020-00264,⁹ and those rates became effective on March 23, 2021. However, as discussed in the Commission's April 4, 2025 Order, streamline rate adjustments filed pursuant to the Pilot Program or 807 KAR 5:078 are not recognized as general rate adjustments by the Commission pursuant to the regulation definition.¹⁰ Therefore, Cumberland Valley Electric's last general rate adjustment was effective February 6, 2017, as established in Case No. 2016-00169.¹¹

TEST PERIOD

Cumberland Valley Electric used a historical test year ending on December 31, 2023.¹²

CUMBERLAND VALLEY ELECTRIC'S PROPOSAL

Cumberland Valley Electric requested approval to increase its annual revenues by \$2,248,438, or 3.9 percent. Cumberland Valley Electric based this on an increase¹³ of 4 percent, which does not exceed 1 percent per 12-month period since the last base rate

⁹ 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* (Ky. PSC Dec. 30, 2020).

¹⁰ Order (Ky. PSC Apr. 4, 2025) at 3.

¹¹ Case No. 2016-00169, *Application of Cumberland Valley Electric, Inc. for a General Adjustment in Rates* (Ky. PSC Feb. 6, 2017).

¹² Application at 3.

¹³ 807 KAR 5:078 Section 2(3).

adjustment,¹⁴ pursuant to 807 KAR 5:078 Section 2(3).¹⁵ Cumberland Valley Electric requested an OTIER of 1.54.¹⁶

Pursuant to 807 KAR 5:078, Cumberland Valley Electric filed its cost of service study (COSS) along with the application.¹⁷ Cumberland Valley Electric relied on this COSS to allocate the proposed revenue to the rate classes.¹⁸ Cumberland Valley Electric proposed to increase the rates for five rate classes: (1) residential, school and churches; (2) residential time of day (TOD); (3) small commercial small power; (4) inclining block rate; and (5) large power 50-2500 kW.¹⁹ Cumberland Valley Electric proposed to increase the residential, school and churches customer charge from \$17.62 to \$25.00 per month, and to decrease the energy charge from \$0.09694 to \$0.09508 per kWh.²⁰ As proposed, a residential customer using an average of 995 kWh, will have a bill impact of an additional \$5.53 or 4.3 percent.²¹

Cumberland Valley Electric explained that despite close management supervision to minimize cost-escalation, overall expenses in several aspects of Cumberland Valley

¹⁴ Cumberland Valley Electric's last base rate adjustment was Case No. 2020-00264, *Electronic Application of Cumberland Valley Electric, Inc. for a General Adjustment of Rates Pursuant to Streamlined Procedure Pilot Program Established in Case No. 2018-00407*. The rates in that case became effective on March 23, 2021.

¹⁵ Application at 2.

¹⁶ Direct Testimony of John Wolfram (Wolfram Direct Testimony) at 7.

¹⁷ Application, COSS.

¹⁸ Wolfram Direct Testimony at 14.

¹⁹ Wolfram Direct Testimony at 21.

²⁰ Application, Notice. See also Wolfram Direct Testimony at 23 (which incorrectly references the residential, school and churches class as 'Residential Rate A').

²¹ Application, Notice.

Electric's operations have increased.²² Cumberland Valley Electric's Board of Directors, in conjunction with its management, determined that an adjustment of retail rates was necessary in order to account for increases in virtually all areas of its business operations since its last rate case, improve Cumberland Valley Electric's overall financial condition, and allow Cumberland Valley Electric to continue to satisfy loan covenants.²³

INTERVENOR COMMENTS

The Attorney General submitted comments regarding Cumberland Valley Electric's proposed rate adjustment.²⁴ The Attorney General requested that the Commission ensure the proposed revenue increase is just and reasonable.²⁵

The Attorney General acknowledged Cumberland Valley Electric's decision to request a 3.99 percent revenue increase of \$2,248,438 despite testimony indicating a revenue deficiency of \$2,790,581.²⁶ The Attorney General commended Cumberland Valley Electric's for limiting its requested revenue increase to 3.99 percent, when it could have arguably requested an increase of 4.95 percent by seeking the full amount of the revenue deficiency.²⁷ However, the Attorney General raised concerns about specific items included in the revenue requirement:

- U.S. Department of Energy's Office of Clean Energy Grant: Cumberland Valley Electric received \$4.9 million grant, which it advised will not be directly used for the

²² Application at 1.

²³ Application at 1-2.

²⁴ Attorney General's Comments.

²⁵ Attorney General's Comments at 3 and 4.

²⁶ Attorney General's Comments at 2-3.

²⁷ Attorney General's Comments at 3.

cost of service for its right-of-way annual mileage targets, and instead, will be used for enhanced reliability improvements in specific circuits. The Attorney General requested that the Commission ensure these funds are properly credited such that ratepayers receive the benefit of these funds.²⁸

- Board Member Fees: The Attorney General noted Cumberland Valley Electric's Board Members receive \$1,000 per month as a Board Fee and recommended comparing it to similar cooperatives.²⁹
- Executive Salaries: The Attorney General requested that the Commission review available compensation data to assess the fairness of these salaries.³⁰
- Non-Executive Wages and Benefits: The Attorney General requested that the Commission compare Cumberland Valley Electric's proposed wages and benefits to similar cooperative and review available all data available to assess the fairness of these salaries.

The Attorney General opposed Cumberland Valley Electric's proposed 41.9 percent increase in the fixed customer charge, arguing that such a substantial increase would significantly limit residential customers' ability to manage their electric bills.³¹ Additionally, the Attorney General pointed out that the Commission has historically applied the principle of gradualism in ratemaking, which aims to mitigate the economic impact of rate changes on consumers.³² The Attorney General maintained that any

²⁸ Attorney General's Comments at 4.

²⁹ Attorney General's Comments at 4.

³⁰ Attorney General's Comments at 3.

³¹ Attorney General's Comments at 4-5.

³² Attorney General's Comments at 5.

increase to the residential fixed customer charge should be implemented gradually to prevent undue financial strain on consumers.³³

The Attorney General requested that the Commission approve Cumberland Valley Electric's proposed revenue increase only after ensuring the necessary adjustments are made to protect ratepayers from unreasonable costs, and to limit the increase to the fixed customer charge.³⁴

CUMBERLAND VALLEY ELECTRIC'S COMMENTS

Cumberland Valley Electric submitted comments regarding Cumberland Valley Electric's proposed rate adjustment.³⁵

Cumberland Valley Electric stated that, with very slow growth and a similarly flat increase in average energy sales, inflationary pressures have continued to erode the cooperative's margins.³⁶ Cumberland Valley Electric further stated that inflation has driven labor expenses and material costs significantly higher over the past several years and interest rates have also increased sharply in the last several years.³⁷

Cumberland Valley Electric asserted that it has focused on lowering or controlling its expenses, including evaluating staffing, and monitoring its borrowing and long-term debt.³⁸ Cumberland Valley Electric stated it has alternatively obtained variable rates, or

³³ Attorney General's Comments at 5.

³⁴ Attorney General's Comments at 5.

³⁵ Cumberland Valley Electric's Comments.

³⁶ Cumberland Valley Electric's Comments at 2.

³⁷ Cumberland Valley Electric's Comments at 2.

³⁸ Cumberland Valley Electric's Comments at 3.

locked in long term rates, depending on the interest rate environment.³⁹ Additionally, Cumberland Valley Electric moved to a cloud-based phone system.⁴⁰

Cumberland Valley Electric stated that, despite several cost-saving initiatives since its last general rate increase, its financial metrics have generally deteriorated.⁴¹ In 2023, Cumberland Valley Electric's OTIER was 0.6213; and, through April 2025, it was 1.50.⁴² Cumberland Valley Electric argued that the requested OTIER in this rate application will allow Cumberland Valley Electric to operate in a healthy manner and meet financial covenants in future years.⁴³

Cumberland Valley Electric argued that the proposed increase to residential rates amounts to a gradual change that eliminates subsidization⁴⁴ of residential rate class by the other rate classes, and this is not only gradual, but it is also fair, just, and reasonable.⁴⁵ Cumberland Valley Electric also explained that the request for the residential customer service charge of \$25 will allow Cumberland Valley to experience less volatility in its revenues and for its customers to experience less volatility in their monthly bills.⁴⁶ Cumberland Valley Electric stated the evidence in this proceeding supports the fixed

³⁹ Cumberland Valley Electric's Comments at 3.

⁴⁰ Cumberland Valley Electric's Comments at 3.

⁴¹ Cumberland Valley Electric's Comments at 3.

⁴² Cumberland Valley Electric's Comments at 3.

⁴³ Cumberland Valley Electric's Comments at 3-4.

⁴⁴ Although Cumberland Valley Electric stated it would eliminate subsidization, the proposed increase reduces subsidization of the residential class, but it does not eliminate it. See Wolfram's Direct Testimony at 23-24.

⁴⁵ Cumberland Valley Electric's Comments at 5.

⁴⁶ Cumberland Valley Electric's Comments at 5.

costs to serve Cumberland Valley Electric's members is \$26.43.⁴⁷ Cumberland Valley Electric argued that 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.⁴⁸

Cumberland Valley Electric stated it believes that its salary and benefits are reasonable and comparable to other cooperatives in the state.⁴⁹ Cumberland Valley Electric further stated it believes its level of health insurance contributions, life insurance contributions, and salary are reasonable and should be accepted by the Commission in this proceeding.⁵⁰

Cumberland Valley Electric explained the importance of its right-of-way expense, for which it did not include an adjustment.⁵¹ Cumberland Valley Electric also explained its reasoning for paying membership dues, volunteering, sponsoring, and charitable donations and noted that these items were excluded from the revenue requirement.⁵²

Cumberland Valley Electric stated that, in this particular case, based on the adjusted test year under the OTIER cap, the revenue deficiency is \$2,248,438.⁵³ Cumberland Valley Electric stated that, should the Commission choose to disallow any costs in Cumberland Valley Electric's pro forma adjustments included within the test year,

⁴⁷ Cumberland Valley Electric's Comments at 5.

⁴⁸ Cumberland Valley Electric's Comments at 5.

⁴⁹ Cumberland Valley Electric's Comments at 6.

⁵⁰ Cumberland Valley Electric's Comments at 6.

⁵¹ Cumberland Valley Electric's Comments at 6.

⁵² Cumberland Valley Electric's Comments at 7.

⁵³ Cumberland Valley Electric's Comments at 7-8.

Cumberland Valley Electric still seeks approval of the requested 1.54 OTIER, which will allow Cumberland Valley to maintain compliance with its loan covenants.⁵⁴

DISCUSSION

Revenue and Expense Adjustments

Cumberland Valley Electric proposed 14 adjustments.⁵⁵ The Commission finds that 12 of the 14 adjustments originally proposed by Cumberland Valley Electric are reasonable and should be accepted without change. The Commission's changes to Cumberland Valley Electric's proposed adjustments relating to large power customers and rate case expense are explained in the following paragraphs. Shown below are the Commission approved adjustments:

Adj. No.	Item	Revenue	Expense	Non-Operating Income	Net Margin
1	Fuel Adjustment Clause	(5,899,413)	(5,473,319)	-	(426,094)
2	Environmental Surcharge	(5,862,954)	(5,926,470)	-	63,516
3	Rate Case Expenses	-	16,913	-	(16,913)
4	Year-End Customer Normalization	278,043	199,283	-	78,761
5	Depreciation Expense Normalization	-	148,112	-	(148,112)
6	Donations, Advertising, Dues, & Other	-	(234,653)	-	234,653
7	Miscellaneous Expenses	-	(1,566)	-	1,566
8	Directors Expense	-	(6,165)	-	6,165
9	Wages & Salaries	-	80,569	-	(80,569)
10	Professional Services	-	(3,428)	-	3,428
11	G&T Capital Credits	-	-	(739,072)	(739,072)
12	Interest	-	(130,541)	-	130,541
13	Life Insurance Premiums	-	(44,598)	-	44,598
14	Large Power Members	-	-	-	-
Total		(11,484,324)	(11,375,864)	(739,072)	(847,531)

Rate Case Expense. In its application, Cumberland Valley Electric proposed a total rate case expense of \$160,000 amortized over three years totaling \$53,333 per

⁵⁴ Cumberland Valley Electric's Comments at 8.

⁵⁵ Wolfram Direct Testimony at 9-10.

year.⁵⁶ On June 17, 2025, Cumberland Valley Electric provided its actual rate case expense, which totaled \$50,739.⁵⁷ If amortized over three years, this amount totals \$16,913 per year.

The Commission finds that Cumberland Valley Electric's actual Rate Case Expense of \$50,739 to be reasonable and that amount amortized over three years, which equates to \$16,913 per year. The Commission finds that the adjustment to Cumberland Valley Electric's proposed expense accurately reflects the actual Rate Case Expense incurred in this case.

Large Power Members. In its application, Cumberland Valley Electric proposed a decrease in revenues for the large power members of \$433,661.⁵⁸ Cumberland Valley Electric explained that, before the Board voted on this filing, Cumberland Valley Electric received notice of the termination of two large power members.⁵⁹ However, since that time, Cumberland Valley Electric explained that it has become aware that new members seek to replace the two who departed and may have contracts approved to allow that before this case concludes.⁶⁰ Cumberland Valley Electric explained that if that happens, and such changes become known and measurable, it will update the information filed herein to reflect any reduction in the revenue deficiency and may revise any relevant requests accordingly, pursuant to applicable Commission requirements.⁶¹

⁵⁶ Wolfram Direct Testimony, Exhibit JW-2, Schedule 1.03.

⁵⁷ Cumberland Valley Electric, Rate Case Expense Update, Exhibit 18 (filed June 17, 2025).

⁵⁸ Wolfram Direct Testimony, Exhibit JW-2.

⁵⁹ Wolfram Direct Testimony at 26.

⁶⁰ Wolfram Direct Testimony at 26.

⁶¹ Wolfram Direct Testimony at 26.

Cumberland Valley Electric subsequently explained that since the notice of termination was received from its customer(s), it has entered into contracts with another large customer that Cumberland Valley Electric anticipates will supplement a portion of that lost revenue.⁶² Those contracts were approved by the Commission to be effective April 1, 2025,⁶³ and the service was energized on April 4, 2025.⁶⁴

Having considered the record and being otherwise sufficiently advised, the Commission finds that the proposed adjustment is unreasonable and should be rejected. The Commission acknowledges that two large power members terminated service, that the revenue has been replaced with another customer(s).⁶⁵ The Commission has received insufficient evidence that this customer would result in less revenue than the former customers. As such, the adjustment, if any, is not known nor should it be reflected in the revenue requirement.

⁶² Response to Deficiency Order (filed Apr. 4, 2025) at 2.

⁶³ Industrial Power Agreement with Interruptible Service between EKPC, Cumberland Valley Electric, and Letcher Power (Chad Substation), effective April 1, 2025. (Chad Station Industrial Power Agreement with Interruptible Service), (https://psc.ky.gov/tariffs/Electric/Cumberland%20Valley%20Electric/Contracts%20and%20Info/East%20Kentucky%20Power%20Cooperative%20Inc/Letcher%20Power,%20LLC/2025-04-01_Chad%20Substation%20Industrial%20Power%20Agreement%20with%20Interruptible%20Service.pdf); Industrial Power Agreement with Interruptible Service between EKPC, Cumberland Valley Electric, and Letcher Power (Oven Fork Substation), effective April 1, 2025. (Oven Fork Substation Industrial Power Agreement with Interruptible Service), (https://psc.ky.gov/tariffs/Electric/Cumberland%20Valley%20Electric/Contracts%20and%20Info/East%20Kentucky%20Power%20Cooperative%20Inc/Letcher%20Power,%20LLC/2025-04-01_Oven%20Fork%20Substation%20Industrial%20Power%20Agreement%20with%20Interruptible%20Service.pdf)

⁶⁴ Response to Deficiency Order at 2.

⁶⁵ Chad Substation Industrial Power Agreement with Interruptible Service; Oven Fork Substation Industrial Power Agreement with Interruptible Service.

Pro Forma Adjustments Summary

The 14 pro forma adjustments are found in Appendix A to this Order and summarized in the chart below. The effects of the approved adjustments on Cumberland Valley Electric's net income result in utility operating margins of \$1,414,697 based upon a total revenue of \$49,250,563, a total cost of electric service of \$47,835,866 and resulting net margins of \$2,115,087. The resulting credit metrics are a 2.21 TIER, a 1.81 OTIER, and a debt service coverage ratio of 2.12. The Commission finds that a revenue increase of \$2,248,438 is reasonable based on the maximum allowable 4 percent increase pursuant to 807 KAR 5:078 and the adjustments made above. While the Commission's adjustments change the net margins and debt metrics, the amount of revenue increase is not changed. In the calculation of the revenue requirement, the Commission's adjustments to expenses did not lower the increase below the maximum 4 percent.

	Cumberland Valley RECC	Final
Revenues		
Fuel Adjustment Clause	(5,899,413)	(5,899,413)
Environmental Surcharge	(5,862,954)	(5,862,954)
Large Power Members	(5,768,954)	
Year End Customers	278,043	278,043
	(17,253,278)	(11,484,324)
Operating Expenses		
Fuel Adjustment Clause	(5,473,319)	(5,473,319)
Environmental Surcharge	(5,926,470)	(5,926,470)
Rate Case Expenses	53,333	16,913
Year End Customer	199,283	199,283
Depreciation Expense	148,112	148,112
Donations, Promotional Advertising, & Dues	(234,653)	(234,653)
Miscellaneous	(1,566)	(1,566)
Board of Directors Fees	(6,165)	(6,165)
Wages & Salaries	80,569	80,569
Professional Services	(3,428)	(3,428)
Interest	(130,541)	(130,541)
Employee Life Insurance Premiums	(44,598)	(44,598)
Large Power Members	(5,335,293)	
Total	(16,674,736)	(11,375,863)
Operating Margins Impact	(578,542)	(108,461)
Generation and Transmission Capital Credits	(739,072)	(739,072)
Net Margins Impact	(1,317,614)	(847,533)

Cost of Service Study (COSS)

Cumberland Valley Electric filed a fully allocated COSS based on the 12 Coincident Peak (12CP) methodology, mirroring the cost allocation basis used in the applicable East Kentucky Power Cooperative (EKPC) wholesale tariff.⁶⁶ The Attorney General did not comment on the COSS. With the 12 CP methodology, Cumberland Valley Electric explained that power supply and transmission costs are allocated on the basis of

⁶⁶ Wolfram Direct Testimony at 18.

the demand for each rate class at the time of EKPC's wholesale system peak for each of the twelve months and customer-related costs are allocated based on the average number of customers served in each rate class during the test year.⁶⁷ Distribution demand-related costs are allocated based on the relative demand levels of each class by the maximum class demands for primary and secondary voltage and by the sum of individual customer demands for secondary voltage.⁶⁸

The zero-intercept method was used for the distribution components to classify customer-related costs of the overhead conductor, underground conductor, and line transformers. The COSS determined Cumberland Valley Electric's overall rate of return (ROR) on the rate base and used it to determine the relative rates of return that Cumberland Valley Electric earns from each rate class. The proposed Revenue Allocation for each rate class with the ROR is illustrated below.⁶⁹

Rate Class	Revenue Increase	Return on Rate Base	Unitized Return on Rate Base
Residential, Schools and Churches – Schedule I	\$1,496,931	2.72%	0.75
Residential, Schools and Churches – Schedule I Time of Day (TOD)	\$272	2.72%	0.75
Small Commercial and Small Power - Schedule II (Single Phase)	\$126,014	2.72%	0.75
Small Commercial and Small Power - Schedule II (Three Phase)	\$0	27.83%	7.66
Inclining Block Rate – Schedule VII	\$17,237	2.72%	0.75

⁶⁷ Wolfram Direct Testimony at 18.

⁶⁸ Wolfram Direct Testimony at 18.

⁶⁹ Wolfram Direct Testimony, Exhibit JW-3 at 1, Exhibit JW-9 at 1.

Large Power Rate – 50 KW to 2,500 KW Schedule IV-A	\$608,984	2.72%	0.75
Total	\$2,248,438	3.63%	1.00

Having reviewed Cumberland Valley Electric's COSS, the Commission finds Cumberland Valley Electric's proposal to use the 12 CP method as a guide to determine revenue allocation to be reasonable.

Revenue Allocation and Rate Design

Based on the results of the COSS, there is an indication that the current rates illustrate a certain degree of subsidization between the rate classes, and, at current rates, all rates with proposed revisions, besides the Small Commercial and Small Power Three Phase rate, are producing less revenues than the cost to serve. Cumberland Valley Electric explained that the proposed revenue increase was allocated in greater proportion to the rate classes whose returns are more negative and in less proportion to those classes whose return are less negative.⁷⁰

Based on the COSS, Cumberland Valley Electric's Residential Class shows the actual cost to serve per month per customer is \$26.43.⁷¹ Cumberland Valley Electric explained that, when calculating the Residential customer charge, Cumberland Valley Electric first reviewed the COSS and then, while considering the economy of the region, determined to request a residential customer charge of \$25.00.⁷²

⁷⁰ Wolfram Direct Testimony at 22.

⁷¹ Wolfram Direct Testimony at 24.

⁷² Cumberland Valley Electric's Comments at 5.

The Attorney General presented concerns regarding the increase in the fixed customer charge of 41.9 percent. The Attorney General explained the increase in the residential customer charge could greatly hinder the ability of residential customers to manage their monthly electric bills.⁷³ The Attorney General stated that the Commission should continue to rely upon the principle of gradualism when awarding any increase to the residential monthly customer charge.⁷⁴

The Commission gives substantial weight to the evidence from the COSS that indicates the majority of rate classes with proposed revisions are earning a rate of return less relative to their cost of service. The Commission also recognizes that, for an electric distribution cooperative, there is merit in providing a means to guard against revenue erosion. However, the Commission agrees with the Attorney General that a 41.9 percent increase to the Residential customer charge could present financial hardships for Cumberland Valley Electric's customers. 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 proposed revenue increase of \$2,248,438, the Commission finds the proposed allocation of revenue to the classes of service is reasonable. The Commission notes that it has consistently found it reasonable to raise the customer charge in utility rate cases to better reflect the fixed costs inherent in providing utility service.⁷⁵ However, the Commission has also found it reasonable to embrace the

⁷³ Attorney General's Comments at 4 - 5.

⁷⁴ Attorney General's Comments at 5.

⁷⁵ 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.

principle of gradualism in ratemaking, which mitigates the financial impact of rate increases on customers while providing reasonable rates.⁷⁶ Therefore, the rate design of the classes with proposed revisions needs to be addressed.

In regard to the Residential, Schools and Churches class, the Commission finds the proposed customer charge of \$25 is not reasonable. The Commission finds this should increase from \$17.62 to \$22.25, or 26.28 percent. By increasing the customer charge by \$4.63, Cumberland Valley Electric is able to recover an additional \$1,252,489 in fixed revenue.⁷⁷ The energy charge will increase from \$0.09694 per kWh to \$0.09802 per kWh to reflect the Commission's approval of the lower residential customer charge. The revisions to the customer charge and energy charge should also apply proportionally for the Residential PrePay Service Rider, reflected in an increase from \$0.59 per day to \$0.73 per day for the customer charge and an increase to \$0.09802 per kWh for the energy charge.⁷⁸ For a Residential, Schools and Churches customer with an average monthly usage of 995 kWh,⁷⁹ the average bill increases by \$5.70, or 4.5 percent, from \$114.04 to \$119.75. The changes in the rate design reflect a \$1,543,089, or 4.5 percent revenue increase for the Residential, Schools and Churches class.

The Commission finds that for Residential TOD, the customer charge should increase from \$20.73 to \$22.25, or 7.33 percent. The COSS supported a customer charge

⁷⁶ 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.

⁷⁷ Additional fixed revenue is calculated by the following equation: (Billing Units x Approved Customer Charge) - (Billing Units x Current Customer Charge).

⁷⁸ Application, Wolfram Direct Testimony at 23; PrePay Customer Charge = $(\$22.25 \times 12)/365$.

⁷⁹ Application, Wolfram Direct Testimony, Table 5, at 25.

of \$26.44,⁸⁰ which would require an approximate 28 percent increase. However, Cumberland Valley Electric proposed the Residential TOD customer charge to match the Residential, Schools, and Churches customer charge.⁸¹ Therefore, the Commission limited the increase to match the revisions to the Residential, Schools, and Churches customer charge. The on-peak energy charge should increase from \$0.11294 per kWh to \$0.11402 per kWh. The off-peak energy charge should increase from \$0.06975 per kWh to \$0.07083 per kWh. The changes in the rate design reflect a \$209, or 2.8 percent revenue increase.

In regard to the Small Commercial and Small Power class, the Commission finds the single-phase rate design to be unreasonable. The proposed customer charge for single phase customers of \$27.07 per month⁸² is a 37.48 percent increase. The Commission notes that for the Small Commercial and Small Power single-phase, the COSS supported a customer charge of \$27.89,⁸³ which would require a 42 percent increase. Cumberland Valley Electric proposed to move the customer charge approximately 89 percent towards the cost-based rate. In order to reflect the principle of gradualism, the Commission finds that the customer charge for single phase customers should increase from \$19.69 to \$24.32, or 23.5 percent, which reflects an approximate 56 percent increase towards the cost of service-based rate. The single phase first 3,000 kWh energy charge should increase from \$0.09712 per kWh to \$0.09800 per kWh, and

⁸⁰ Application, Wolfram Direct Testimony, Exhibit JW-3 at 2.

⁸¹ Application, Wolfram Direct Testimony at 23.

⁸² Application, Wolfram Direct Testimony, Exhibit JW-9 at 1.

⁸³ Application, Wolfram Direct Testimony, JW-3 at 2.

the single phase over 3,000 kWh energy charge should increase from \$0.09357 per kWh to \$0.09453 per kWh. The changes in the single-phase rate design result in a \$83,657, or 4.4 percent, increase in revenue. The Commission finds that for the three-phase class, the revenue neutral revisions to the rate design are reasonable and should be accepted as filed.

In regard to the Inclining Block Rate, which is available to Residential, Schools, Churches, and Small Commercial and Small Power Single Phase, the customer charge should increase from \$10.26 to \$15.50, or 51.07 percent. The COSS supported a customer charge of \$26.56⁸⁴, which would require an approximate 159 percent increase to reach. By limiting the increase to 51.07 percent, it allows Cumberland Valley Electric's Inclining Block Rate to move closer to the cost of service-based rate, while lessening the potential financial burden on the customers. Additionally, the energy charges should increase as illustrated below:

Energy Charge	Current	Commission Revision
First 200 kWh	\$0.09921per kWh	\$0.09965 per kWh
Next 300 kWh	\$0.10439 per kWh	\$0.10485 per kWh
Over 500 kWh	\$0.10958 per kWh	\$0.11005 per kWh

In regard to the other rate classes with proposed revisions, the Commission finds the rates to be reasonable and finds that those rates, which are reflected in Appendix B to this Order, should be approved as filed.

⁸⁴ Application, Wolfram Direct Testimony, JW-3 at 2.

SUMMARY

As set forth above, following review of the case record, the Commission found a revenue increase of 4 percent or \$2,248,438 to be reasonable. To achieve this increase and reduce rate class subsidization, the Commission found it reasonable to increase in the Residential Service customer charge from \$17.62 to \$22.25 and increase the residential energy charge from \$0.09694 per kWh to \$0.09802.⁸⁵ The increase will result in credit metrics of 2.21 TIER, a 1.81 OTIER, and a debt service coverage ratio of 2.12.

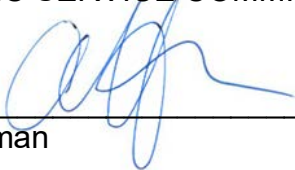
After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the rates proposed by Cumberland Valley Electric should be denied. The rates set forth in Appendix B to this Order are approved pursuant to 807 KAR 5:078 for Cumberland Valley Electric to charge for service rendered on and after the date of this Order and should be approved.

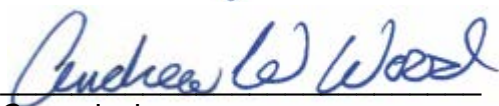
IT IS THEREFORE ORDERED that:


1. The rates proposed by Cumberland Valley Electric are denied.
2. The rates set forth in Appendix B to this Order are approved for services rendered by Cumberland Valley Electric on and after the date of service of this Order.
3. Within 20 days of the date of service of this Order, Cumberland Valley Electric shall file with the Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and reflecting its effective data and that it was authorized by this Order.
4. This case is closed and removed from the Commission's docket.

⁸⁵ The Commission made other rate design adjustments noted earlier in the Order.

PUBLIC SERVICE COMMISSION


Chairman


Commissioner


Commissioner

ATTEST:


Executive Director



APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00388 DATED JUL 10 2025

Description	Actual Test Year	Pro Forma Adjustments	Pro Forma Test Yr	Proposed Rates
<u>Operating Revenues</u>				
Total Sales of Electric Energy	56,345,655	(11,484,324)	44,861,332	47,111,332
Other Electric Revenue	2,139,231	-	2,139,231	2,139,231
Total Operating Revenue	58,484,886	(11,484,324)	47,000,563	49,250,563
<u>Operating Expenses:</u>				
Purchased Power	43,384,255	(11,200,506)	32,183,749	32,183,749
Distribution Operations	1,811,290	-	1,811,290	1,811,290
Distribution Maintenance	3,841,379	-	3,841,379	3,841,379
Customer Accounts	1,720,339	-	1,720,339	1,720,339
Customer Service	170,531	-	170,531	170,531
Sales Expense	-	-	-	-
A&G	1,851,617	(192,929)	1,658,688	1,658,688
Total O&M Expense	52,779,411	(11,393,435)	41,385,976	41,385,976
Depreciation	4,344,707	148,112	4,492,819	4,492,819
Taxes - Other	48,535	-	48,535	48,535
Interest on LTD	1,884,903	(130,541)	1,754,362	1,754,362
Interest - Other	142,967	-	142,967	142,967
Other Deductions	11,207	-	11,207	11,207
Total Cost of Electric Service	59,211,730	(11,375,864)	47,835,866	47,835,866
Utility Operating Margins	(726,844)	(108,459)	(835,303)	1,414,697
Non-Operating Margins - Interest	562,638	-	562,638	562,638
Income(Loss) from Equity Investments	-	-	-	-
Non-Operating Margins - Other	-	-	-	-
G&T Capital Credits	739,072	(739,072)	-	-
Other Capital Credits	137,752	-	137,752	137,752
Net Margins	712,618	(847,531)	(134,913)	2,115,087
Cash Receipts from Lenders	6,011	-	6,011	6,011
DSC	1.76		1.55	2.12
TIER	1.38		0.92	2.21
OTIER	0.62		0.53	1.81
Minimum DSC (RUS)	1.25		1.25	1.25
Margins at Target TIER	(1,288,804)		(1,306,374)	(1,306,374)
Revenue Requirement	57,922,926		46,529,491	46,529,491
Target TIER	2.00		2.00	2.00
Margins at Target TIER	1,884,903		1,754,362	1,754,362
Revenue Requirement	61,096,633		49,590,227	49,590,227
Target OTIER	1.85		1.85	1.85
Margins at Target OTIER	3,035,619		2,185,586	2,185,586
Revenue Requirement	62,247,349		50,021,452	50,021,452
Revenue Deficiency (Excess)	2,323,001		2,320,499	70,499
Increase			2,248,438	2,248,438
Percent Increase				3.99%

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00388 DATED JUL 10 2025

The following rates and charges are prescribed for the customers served by Cumberland Valley Electric's 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, Schools and Churches – Schedule I

Customer Charge	\$22.25 per Month
Energy Charge	\$0.09802 per kWh

Residential, Schools and Churches – Schedule I PrePay Rider

Customer Charge	\$0.73 per Day
Energy Charge	\$0.09802 per kWh

Residential, Schools and Churches – Schedule I Time of Day (TOD)

Customer Charge	\$22.25 per Month
On Peak Energy Charge	\$0.11402 per kWh
Off Peak Energy Charge	\$0.07083 per kWh

Small Commercial and Small Power - Schedule II (Single Phase)

Customer Charge	\$24.32 per Month
First 3,000 kWh Energy Charge	\$0.09800 per kWh
Over 3,000 kWh Energy Charge	\$0.09453 per kWh

Small Commercial and Small Power - Schedule II (Three Phase)

Customer Charge	\$33.00 per Month
First 3,000 kWh Energy Charge	\$0.10145 per kWh
Over 3,000 kWh Energy Charge	\$0.09776 per kWh

Inclining Block Rate – Schedule VII

Customer Charge	\$15.50 per Month
First 200 kWh Energy Charge	\$0.09965 per kWh
Next 300 kWh Energy Charge	\$0.10485 per kWh
Over 500 kWh Energy Charge	\$0.11005 per kWh

Large Power Rate – 50 KW to 2,500 KW Schedule IV-A

Demand Charge	\$6.66 per kW
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Vacant Rate Classes

Large Power– Industrial Schedule IV

Energy Charge	\$0.06565 per kWh
Demand Charge	\$6.52 per kW

Large Power Rate – 1000 KW to 2,500 KW Schedule V

Energy Charge	\$0.06565 per kWh
Demand Charge - Contract	\$6.52 per kW

Large Power Rate – Industrial Schedule V-A

Energy Charge	\$0.06565 per kWh
Demand Charge - Contract	\$6.52 per kW

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