



Steven L. Beshear  
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Energy and Environment Cabinet

Commonwealth of Kentucky  
**Public Service Commission**  
211 Sower Blvd.  
P.O. Box 615  
Frankfort, Kentucky 40602-0615  
Telephone: (502) 564-3940  
Fax: (502) 564-3460  
psc.ky.gov

David L. Armstrong  
Chairman

James W. Gardner  
Vice Chairman

Linda Breathitt  
Commissioner

December 16, 2013

**PSC STAFF OPINION 2013-020**

Timothy J. Sharp PE  
Chief Operating Officer  
Salt River Electric Cooperative  
111 West Brashear Avenue  
Bardstown, KY 40004

RE: Salt River Electric Cooperative Corporation 2014-2017 Construction Work Plan

Dear Mr. Sharp:

Commission Staff acknowledges receipt of your letter dated November 26, 2013, on behalf of Salt River Electric ("Salt River"), in which you request an opinion as to whether any or all projects contained in Salt River's 2014-2017 Construction Work Plan ("CWP") require a Certificate of Public Convenience and Necessity ("CPCN") or whether the projects fall within the "ordinary course of business" exemption and, therefore, do not require a CPCN.

Pursuant to the Commission's recent decision that each construction project contained in a CWP should be analyzed on an individual basis to determine whether that individual project is exempt from the requirement in KRS 278.020(1) to obtain a CPCN, Commission Staff has met and reviewed the amended projects to Salt River's 2014-2017 CWP. This letter represents Commission Staff's opinion, which is advisory in nature and not binding on the Commission should the issues herein be formally presented for Commission resolution.

As with all legal opinions requesting a determination of the exemption from the requirement of a CPCN, Commission Staff's review does not consider the reasonableness or the need for each project. Therefore, because reasonableness and need are not considered herein, or in other non-rate cases, the cost of such a project can be denied recovery in a rate case if found to be unreasonable or unnecessary.

According to its 2014-2017 CWP and based upon the RUS Form 740c that was attached to the CWP, Salt River proposes construction identified by the following RUS

Codes: (1) Code 100 construction for new services at an estimated total cost of \$6,702,325; (2) Code 300 line conversion and replacement at an estimated total cost of \$5,875,850; (3) Code 600 for miscellaneous distribution equipment and pole changes at an estimated total cost of \$14,313,451; and (4) Code 700 security lights at an estimated total cost of \$670,163.

KRS 278.020(1) provides, in relevant part, as follows:

No person, partnership, public or private corporation, or combination thereof shall commence providing utility service to or for the public or begin the construction of any plant, equipment, property, or facility for furnishing to the public any of the services enumerated in KRS 278.010, except retail electric suppliers for service connections to electric consuming facilities located within its certified territory and ordinary extensions of existing systems in the usual course of business, until that person has obtained from the Public Service Commission a certificate that public convenience and necessity require the service or construction.

Regarding the exception to the CPCN requirement, Administrative Regulation 807 KAR 5:001, Section 15(3) provides, in full, as follows:

Extensions in the ordinary course of business. A certificate of public convenience and necessity shall not be required for extensions that do not create wasteful duplication of plant, equipment, property, or facilities, or conflict with the existing certificates or service of other utilities operating in the same area and under the jurisdiction of the commission that are in the general or contiguous area in which the utility renders service, and that do not involve sufficient capital outlay to materially affect the existing financial condition of the utility involved, or will not result in increased charges to its customers.

In analyzing whether the proposed projects would materially affect Salt River's financial condition, Commission Staff takes notice of Salt River's 2012 Annual Report, which shows Salt River has a net utility plant of approximately \$74,638,766 as of December 13, 2012. With the exception of the project identified in the Historical Data page as "Replacement Transformers," each proposed construction project when

reviewed individually based on its estimated cost would not materially impact Salt River's existing financial condition. Therefore, each construction project is generally considered to be an extension in the ordinary course of business. Likewise, the cost estimate of each project considered separately in the 2014-2017 CWP will not have immediate or significant impact on Salt River's rates. Thus, Commission Staff is of the opinion that each of the proposed projects set out in Salt River's 2014-2017 CWP satisfy the "ordinary course of business" exemption from CPCN requirement with the exception of the project labeled "Replacement Transformers."

Based on the lack of information provided in the CWP, Commission Staff is unable to conclude whether the project designated as "Replacement Transformers" satisfies the "ordinary course of business" exemption. On the "HISTORICAL DATA" page, Item No. 20, COST OF REPLACEMENT TRANSFORMERS, includes a total amount of \$1,475,697.83, which does not appear to be discussed or identified in the CWP. Please provide a discussion of this item and explain where it is included in the CWP.

Although Commission Staff is of the opinion that all of the projects contained in the CWP, with the exception of the Replacement Transformers project, are not subject to the CPCN requirement, Commission Staff would like clarification on the costs of the new meters. Commission Staff notes that on the "HISTORICAL DATA" page, Item No. 12, INSTALLED COST PER METER reflects a total cost of \$140,000. However, RUS Form 740c, page 2, shows 800 three-phase meters at a total cost of \$14,000 and includes that amount in the extended \$1,220,293 column titled BORROWER'S COST ESTIMATE. It appears that the \$14,000 rather than the \$140,000 was included in the total cost estimate for the CWP of \$27,561,789. Please confirm that the correct amount for three-phase meters should be \$140,000; that the correct extension amount should be \$1,346,293; and that the correct total amount of the CWP should be \$27,687,789. If this is not accurate, please reconcile the difference in the total cost of the three-phase meters as provided in the Historical Data page and in RUS Form 740c.

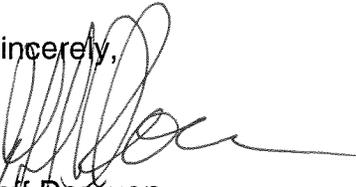
The information concerning the Replacement Transformers and the total cost of three-phase meter should be provided within seven days from the date of this letter. As a reminder, before any construction can begin on the Replacement Transformers project, a CPCN must be granted or a staff opinion issued determining the project an "ordinary course of business" exemption.

This letter represents Commission Staff's interpretation of the law as applied to the facts presented. This opinion is advisory in nature and not binding on the

Timothy J. Sharp PE  
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Commission should the issues herein be formally presented for Commission resolution. Questions concerning this opinion should be directed to Quang D. Nguyen at (502) 782-2586.

Sincerely,



Jeff Derouen  
Executive Director

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