

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF SALT RIVER ELECTRIC)	
COOPERATIVE CORPORATION FOR A)	
CERTIFICATE OF CONVENIENCE AND)	CASE NO.
NECESSITY AUTHORIZING CERTAIN)	2013-00343
PROPOSED CONSTRUCTION IDENTIFIED AS)	
THE HEADQUARTERS CONSTRUCTION AND)	
DISTRICT RENOVATIONS)	

ORDER

On September 18, 2013, Salt River Electric Cooperative Corporation (“Salt River”) tendered for filing an application for a Certificate of Public Convenience and Necessity (“CPCN”) for the construction of a new warehouse/operations center and other facilities and for authority to sell its existing Nelson County operations warehouse and the 70 acres where it is sited to the Bardstown Independent School District. On September 25, 2013, the Commission issued a letter notifying Salt River that its application was deficient and was rejected for filing. On September 27, 2013, Salt River cured the filing deficiencies, and by letter dated October 2, 2013, the Commission accepted the application for filing as of September 27, 2013.

Salt River states that the Bardstown Independent School District (“School District”) approached it “a couple of years ago”¹ about the possibility of buying Salt River’s Nelson County operations warehouse and the 70 acres on which it is situated. After considerable conversation, the school district has agreed to pay \$4.5 million to buy

¹ Application, tendered for filing September 18, 2013, first [unnumbered] page.

Salt River's operations warehouse and property.² Salt River has recently purchased approximately 76 acres adjacent to the Nelson County Industrial Park and believes it can construct a new warehouse and operations facility for around \$4 million, including approximately \$581,524 for the land.³ The architectural firm of MSE of Kentucky has been working on the design of the new facility and Salt River states it has a contract with EH Construction to do the projects.⁴ The cost of all of its buildings, site work, architect fees, utilities, and necessary equipment is \$3.3 million,⁵ plus \$100,000 for a new generator to be fueled with diesel fuel from an above ground storage tank and a needed forklift.

Salt River does not intend to issue any short-term⁶ or long-term financing and will not be requesting increased rates to finance the project. It intends to use the \$4.5 million proceeds from the sale to the School District to cover the estimated \$4 million cost for the new warehouse/operations center, and the excess proceeds will be returned to its members in the form of additional capital credits.⁷ Commission Staff issued one request for information on October 3, 2013. In its response, Salt River indicated that it proposes to construct four buildings: a 6,000-square-foot office with an adjacent 30,000-square-foot warehouse, a separate 10,000-square-foot building to house wire

² *Id.*, p. 2.

³ *Id.*, paragraph 5, p. 2.

⁴ *Id.*, paragraph 6, p. 2.

⁵ Response of Salt River to Commission Staff's First Request for Information, Item 1.b.

⁶ *Id.*, Item 11.

⁷ Application, paragraph 9, p. 2.

and transformers; and a 2,000-square-foot building to house leaking transformers.⁸ Salt River states that “[t]he \$4 million estimated cost of the project includes everything.”⁹

Salt River states that the proposed new facilities will replace one warehouse/operations building along with six accessory buildings.¹⁰ The annual cost of operation at the existing operations/warehouse facility is \$70,000,¹¹ and based on the history of the existing 26,131-square-foot warehouse, the estimated annual cost of operation of the proposed new warehouse will be \$76,595.45.¹² The value of the 70 acres of land that is being sold as part of this transaction is carried on its books at \$829,376.¹³ In 1998, Salt River had an appraisal concerning commercial land in a similar area and the estimated cost was \$50,000 per acre for commercial land,¹⁴ and, in 1994, its warehouse was appraised at \$845,000.¹⁵ Based on these appraisals plus some inflation, Salt River decided to make an offer of \$4.5 million to sell the property to the School District, which was accepted.¹⁶ The January 1, 2013 assessed value of the existing operations warehouse and land is \$2,329,376,¹⁷ while the January 1, 2013

⁸ Response of Salt River to Commission Staff's First Request for Information, Item 1.c. and 1.d.

⁹ *Id.*, Item 1.e.(2).

¹⁰ *Id.*, Items 14 and 15.

¹¹ *Id.*, Item 13.

¹² Salt River's Letter in Response to Filing Deficiencies filed September 27, 2013.

¹³ Response of Salt River to Commission Staff's First Request for Information, Item 2.c.

¹⁴ *Id.*, Item 2.a.

¹⁵ *Id.*

¹⁶ *Id.*

¹⁷ *Id.*, Item 2.d.

assessed value of the 76 acres that it has purchased is \$1,232,453,¹⁸ although the purchase price was approximately \$581,524.¹⁹

Salt River indicates that it sent bid requests to ten architectural firms and selected MSE of Kentucky after reviewing qualifications requested from the ten firms.²⁰ It states that it chose EH Construction after asking 19 firms to bid on its project.²¹

In explaining the need for the new facilities, Salt River states that its current facility was built in 1983 and is adequate for its present needs.²² It asserts that the biggest issue is that the school district currently has two schools very close to the current facility and the School District has been considering the possibility of building schools across the street from Salt River's current location. Additional schools would have created a serious traffic concern, and the traffic situation coupled with the advantages of working from a larger, newer, and better facility for less cost have driven the project. Salt River indicates that its new warehouse is designed to be compliant with Kentucky energy-efficiency building codes.²³ It states that it has another smaller facility in Bullitt County that is used to service and maintain its Bullitt and Spencer County customers and that due to logistics, driving, and response times, it will continue to serve Bullitt and Spencer Counties from that facility.²⁴

¹⁸ *Id.*, Item 3.d.

¹⁹ Application, paragraph 5, p. 2.

²⁰ Response of Salt River to Commission Staff's First Request for Information, Item 4.a.

²¹ *Id.*, Item 5.a.

²² *Id.*, Item 16.

²³ *Id.*, Item 28.

²⁴ *Id.*, Item 10.b.

As a prerequisite to transferring ownership of utility property, KRS 278.218 provides that:

- (1) No person shall acquire or transfer ownership of or control, or the right to control, any assets that are owned by a utility as defined under KRS 278.010(3)(a) without prior approval of the commission, if the assets have an original book value of one million dollars (\$1,000,000) or more and:
 - (a) The assets are to be transferred by the utility for reasons other than obsolescence; or
 - (b) The assets will continue to be used to provide the same or similar service to the utility or its customers.
- (2) The commission shall grant its approval if the transaction is for a proper purpose and is consistent with the public interest.

Salt River has indicated that approval from the Commission is the last condition before the transaction between it and the School District can be completed, therefore, the Commission will construe Salt River's application as a request for authorization to sell its current Nelson County warehouse facilities in addition to a request for a CPCN to construct new facilities. The Commission finds that Salt River's proposed transfer of the 70 acres of land and improvements thereon in conjunction with the proposed construction of new warehouse/operations center and facilities will return money to its members and is thus for a proper purpose and is consistent with the public interest. Accordingly, the contemplated sale should be approved.

As to Salt River's request to construct new facilities, KRS 278.020(1) provides, in relevant part, that:

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.

807 KAR 5:001, Section 15(2), provides in part:

New construction or extension. Upon application by the utility, person, firm, or corporation for a certificate that the present or future public convenience or necessity requires, or will require, the construction or extension of any plant, equipment, property, or facility, the applicant, in addition to complying with Section 14 of this administrative regulation, shall submit the following data, either in the application or as attached exhibits:

(a) The facts relied upon to show that the proposed new construction is or will be required by public convenience or necessity.

The Commission finds that Salt River will fully fund the project through selling its 70-acre property encompassing its existing Nelson County operations warehouse to the School District for approximately \$4.5 million. It will build a replacement warehouse/operations center for around \$4 million, and thereby be able to return money to its members in the form of additional capital credits.²⁵ The construction will not require any financing or result in increased rates. The proposed buildings will provide Salt River with larger and newer facilities from which to operate and allow its employees to perform their job duties efficiently. The new facilities and location will also serve to alleviate growing safety concerns through the presence of several schools surrounding

²⁵ Application, paragraph 9, p. 2.

the current facilities. The School District's proposal to build additional schools across the street from Salt River's existing facility further illustrates the need to relocate to an alternative location.

Based upon the record and being otherwise sufficiently advised, the Commission finds that the transfer of Salt River's current Nelson County operations warehouse should be approved. The Commission further finds that the construction projects proposed by Salt River in its application would not result in wasteful duplication of facilities and should be approved. The Commission also finds that if the final construction costs exceed the estimated costs, Salt River should file sufficient information with the Commission to explain and justify the additional costs. Finally, the Commission finds that Salt River should file "as-built" drawings and maps with the Commission following completion of all construction.

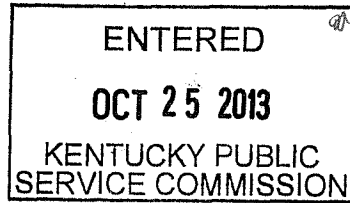
IT IS THEREFORE ORDERED that:

1. Salt River's request for a CPCN to construct a new warehouse/operations center as outlined in its application is approved.
2. Salt River is authorized to sell its Nelson County operations warehouse and the 70 acres on which it is situated as outlined in its application.
3. Should Salt River's final construction and land acquisition costs exceed the estimated cost of \$4 million, Salt River shall, within 45 days of final construction, file with the Commission sufficient information to explain and justify any and all such additional costs.
4. Salt River shall file "as-built" drawings and maps within 60 days of the completion of the construction authorized by this Order.

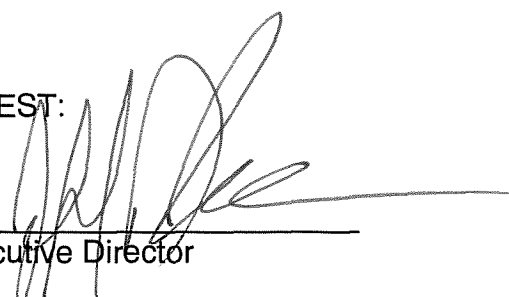
5. Any documents filed pursuant to ordering paragraphs 3 and 4 shall reference this case number and shall be retained in the utility's general correspondence file.

6. The Executive Director is delegated authority to grant reasonable extensions of time for the filing of any documents required by this Order upon Salt River's showing of good cause for such extension.

By the Commission



ATTEST:


Executive Director

Case No. 2013-00343

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