

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF GRAYSON RURAL ELECTRIC)	
COOPERATIVE CORPORATION FOR A CERTIFICATE)	
OF CONVENIENCE AND NECESSITY PURSUANT TO)	CASE NO.
KRS 278.020 AND 807 KAR 5:001, SECTION 9, AND)	2010-00441
RELATED SECTIONS AUTHORIZING CERTAIN)	
PROPOSED CONSTRUCTION)	

ORDER

Grayson Rural Electric Cooperative Corporation (“Grayson”) filed its application on November 15, 2010 for a Certificate of Public Convenience and Necessity (“CPCN”) to construct certain improvements and additions to its existing plant at an estimated cost of \$16,438,419. In support of its application, Grayson filed its 2009-2012 Construction Work Plan (“CWP”) which describes in detail the improvements and additions to its plant that are required over the four-year period to serve its load.

Grayson seeks authorization to construct extensions and additions to its plant as follows:

New Distribution Line	\$5,188,868
Line Conversion & Improvement	3,007,800
Miscellaneous Equipment & Poles	7,903,351
Security Lights	<u>338,400</u>
TOTAL	\$16,438,419

Grayson’s CWP is financed with loans issued by the Rural Utilities Service (“RUS”). Although Grayson received RUS approval for its 2009-2012 CWP on October 7, 2008, Grayson did not file its application seeking Commission approval of the CWP

until November 15, 2010. During the processing of this matter, Grayson revealed that it had started construction on five projects contained in its 2009-2012 CWP prior to obtaining Commission approval of the CWP.

Grayson also revealed, during the discovery phase of this proceeding, that it was in the midst of upgrading its Landis & Gyr Turtle 1 system to a Turtle 2 system in order to, among other things, accommodate optional inclining block and off-peak rate structures.¹ The Turtle 2 upgrade would add the following capabilities to Grayson's existing AMR system: 1) Two-way communication; 2) Detailed load data; 3) Monitoring and reporting of voltage and demand; 4) Measuring usage up to four separate time frames daily; and 5) Remote connect and disconnect. The estimated cost of the Turtle 2 system is \$840,000 to upgrade 12 substations, plus \$100 per meter for those meters needing to be upgraded.

Grayson states that the upgrade to a Turtle 2 system was not included in its CWP because the CWP only contains system distribution additions and improvements that will be financed by long-term debt. However, the Commission finds that the upgrade was a significant capital expenditure not in the ordinary course of business and that Grayson should have requested a CPCN for the Turtle 2 upgrade.

Prior to 2009, Grayson had failed to submit its construction work plans for Commission approval on a regular basis. Due to this fact, the Commission issued a letter to Grayson in November of 2009 notifying them that construction work plans

¹ In Case No. 2010-00230, Application of Grayson Rural Electric Cooperative Corporation for Approval of Optional Rates, Temporary Service Rate, General Service Tariff, and Remote Disconnect and Reconnect Service Charge, the Commission approved various voluntary tariffs for Grayson including residential and small commercial inclining block and time-of-day tariffs.

involve significant capital expenditures for new facilities and, therefore, such plans are not deemed ordinary extensions in the usual course of business. The November 2009 letter further placed Grayson on notice that construction work plans are not exempt from the CPCN requirements of KRS 278.020(1).

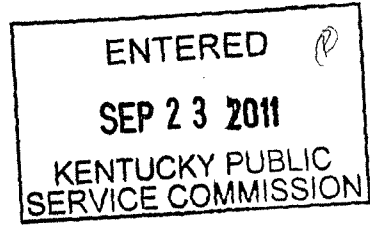
Based on the evidence of record, the Commission finds that Grayson should have received Commission approval under KRS 278.020(1) prior to beginning construction of the Turtle 2 system and the five CWP projects. The Commission will, by separate Order, initiate a separate proceeding to investigate whether Grayson should be assessed a penalty under KRS 278.990 for beginning construction on the CWP prior to receiving a CPCN and for not requesting a CPCN for the Turtle 2 system.

The Commission further finds that the proposed construction in the CWP will enable Grayson to continue to provide adequate and dependable electric service to its customers. The system improvements recommended in this CWP will not duplicate existing facilities and are needed to correct voltage problems, improve phase balance, and provide for improved service reliability.

It is hereby ordered that:

1. Grayson is granted a CPCN to construct the facilities described in its 2009-2012 CWP.
2. By separate order, the Commission will establish a proceeding to investigate Grayson's commencement of construction of certain projects included in its 2009-2012 CWP prior to obtaining a CPCN and its failure to obtain a CPCN for its Turtle 2 system.

By the Commission



ATTEST:

Carson D. Brunwell *for*
Executive Director

Case No. 2010-00441

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