COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

REQUEST OF SHELBY ENERGY COOPERATIVE FOR APPROVAL TO ESTABLISH A REGULATORY ASSET IN THE AMOUNT OF $443,562.75 AND AMORTIZE THE AMOUNT OVER A PERIOD OF FIVE (5) YEARS	)))))	CASE NO. 2012-00102

ORDER

On March 19, 2012, Shelby Energy Cooperative ("Shelby Energy") filed a request for approval to establish a regulatory asset in the amount of $443,562.75 for the write-off of retired mechanical meters and the associated accumulated depreciation and to amortize the amount over five years. Shelby Energy submitted a copy of its February 16, 2012 letter seeking approval from the federal Rural Utilities Service ("RUS") of the deferral plan, which included basic information regarding the proposed plan. On March 13, 2012, RUS responded to Shelby Energy giving its approval to implement its proposed plan, but noted that the Commission must authorize the deferral and subsequent recovery of the costs. Shelby Energy stated that it planned to begin amortizing the cost of the retired meters in 2011.[1] There are no intervenors in this proceeding.

DISCUSSION

Shelby Energy originally included the installation of an Advanced Metering Infrastructure ("AMI") system as part of its three-year work plan approved by the

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[1] E-mail sent March 30, 2012 by Shelby Energy's counsel to Commission Staff counsel, filed on April 4, 2012.

Commission in Case No. 2010-00244.[2] In conjunction with its AMI program, Shelby Energy now proposes to write off the cost of the meters that are being retired and the associated accumulated depreciation, which, absent the creation of a regulatory asset, would cause it to incur a one-time expense of $443,562.75. Shelby Energy states that it is of the opinion that the large write-off created by the retirement should not be expensed in one year since it is a result of years of accumulating meters and is a premature retirement of its existing meters. Since it maintains accumulated depreciation for total distribution plant and not at the individual plant level, Shelby Energy applied the ratio of the cost of the meters to be retired to total distribution plant to the accumulated depreciation on distribution plant total to arrive at the accumulated depreciation associated with the retired meters.

Shelby Energy provided the following proposed accounting entry to retire the meters:

DR Acct. 108.60, Accumulated Depreciation	$ 97,367.43
DR Acct. 186.50, Deferred Debit Meters Retired	$443,562.75
CR Acct. 370.00, Meters	$540,930.18

Shelby Energy explains that it plans to amortize the loss of $443,562.75 over five years, which will reduce its margins by $88,712.55 each year. Shelby Energy chose five years because a period less than five years would have too dramatic of an effect on margins and a period greater than five years would have the same effect as amortizing the old meters and recording depreciation on the new meters in the same time period, resulting in a doubling of expenses. The accounting entry proposed by Shelby Energy for the annual amortization is:

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[2] Case No. 2010-00244, Application of Shelby Energy Cooperative, Inc. for a Certificate of Public Convenience and Necessity for its 2010-2014 Construction Work Plan (Ky. PSC Aug. 3, 2011).

DR Acct. 407.00, Amortization of Property Losses	$88,712.55
CR Acct. 186.50, Deferred Debit Meters Retired	$88,712.55

The deferral of the cost resulting from the retirement of the mechanical meters will have the effect of reducing Shelby Energy's margins by $88,712.55 in each year of the five-year amortization period, rather than reducing its margins by $443,562.75 in one calendar year for the full amount of the retired meter write-off.

ANALYSIS

A regulatory asset is created when a rate-regulated entity is authorized by its regulator to capitalize an expenditure that would be recorded as a current expense under traditional accounting rules. The reclassification of an expense as a capital item allows the regulated entity the opportunity to request recovery of the cost in future rates. The authority for establishing regulatory assets arises under the Commission's plenary authority to regulate utilities under KRS 278.040 and its authority to establish a system of accounts for utilities under KRS 278.220. Historically, the Commission has exercised its discretion to approve the creation of a regulatory asset when a utility has incurred: (1) an extraordinary, nonrecurring expense which could not have reasonably been anticipated or included in the utility's planning; (2) an expense resulting from a statutory or administrative directive; (3) an expense in relation to an industry-sponsored initiative; or (4) an extraordinary or nonrecurring expense that, over time, will result in savings that fully offset the cost.[3]

The basis for Shelby Energy's request to establish a regulatory asset is our decision in Case No. 2010-00244 which granted Shelby a Certificate of Public

[3] Case No. 2008-00436, The Application of East Kentucky Power Cooperative, Inc. for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to Certain Replacement Power Costs Resulting From Generation Forced Outages (Ky. PSC Dec. 23, 2008).

Convenience and Necessity for the replacement of all of its existing mechanical meters with an AMI system. That decision was based, in part, on the results of a break-even analysis performed by Shelby Energy which demonstrated that its net operating costs with the AMI system would be less than the costs it would incur if it continued to operate with mechanical meters.

In this instance, we find that Shelby Energy's request clearly reflects its understanding that, almost by definition, replacing all of its single-phase mechanical meters with an AMI system will necessitate the retirement of the meters being replaced and will trigger the attendant requirements of properly accounting for those retirements. We also find that the break-even analysis performed by Shelby Energy supports the creation of a regulatory asset pursuant to item (4) of the criteria established by the Commission, as listed on page 3. While the Commission finds it reasonable to permit Shelby Energy to establish the requested regulatory asset, the issue of rate recovery is not before the Commission at this time. Accordingly, it will be Shelby Energy's responsibility, if it files a base rate application during the period over which it plans to amortize the undepreciated cost of the retired meters, to demonstrate that the recovery of the unamortized amount and the amortization period are reasonable.

FINDINGS AND ORDERS

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that Shelby Energy's request for authority to record the retired meter write-off as a regulatory asset is reasonable and should be approved. The Commission finds that, for accounting purposes, the amortization of the regulatory asset beginning with the 2011 financial statements is reasonable and should be approved.

Any issue relating to recovery of the amortization in rates will be considered if raised by Shelby Energy in its next rate case.

IT IS THEREFORE ORDERED that:

1. Shelby Energy's request to establish a regulatory asset account to record the retired meter write-off is approved as proposed for accounting purposes only.

2. Shelby Energy shall record its retired meter write-off as a regulatory asset in conformance with the provisions of its application.

3. Shelby Energy's request to amortize the regulatory asset over five years is approved for accounting purposes only, with the first year's amortization to be recorded in its 2011 financial statements.

By the Commission

ENTERED
APR 16 2012
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

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