COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

REQUEST OF KENERGY CORP. FOR APPROVAL TO ESTABLISH A REGULATORY ASSET IN THE AMOUNT OF $3,884,717 AMORTIZED OVER A TEN (10) YEAR PERIOD	))))	CASE NO. 2015-00141

ORDER

On April 27, 2015, Kenergy Corp. ("Kenergy") filed an application seeking approval to establish a regulatory asset in the amount of $3,884,717 for the write-off of electro-mechanical meters that are being replaced by an Advanced Metering Infrastructure ("AMI") system. Kenergy provided a copy of its March 11, 2015 letter submitted to the Rural Utility Service ("RUS") seeking approval of the deferral plan, which included basic information regarding the proposed plan. On April 15, 2015, RUS granted Kenergy approval to implement its proposed plan, but noted that the Commission must authorize the deferral and subsequent amortization of the asset. Kenergy proposed to amortize the regulatory asset over a ten-year period.[1]

There are no intervenors in this case. Kenergy responded to two requests for information from Commission Staff. The matter now stands submitted to the Commission for a decision based on the evidentiary record.

[1] Application at 1.

BACKGROUND

In Case No. 2014-00376,[2] Kenergy requested and was granted a Certificate of Public Convenience and Necessity to purchase and install an AMI system beginning in 2015 and continuing into 2016 at a cost of $9,719,314.[3] In conjunction with the project to replace electro-mechanical meters, Kenergy is proposing to write off the cost of its existing electro-mechanical meters and the associated accumulated depreciation. Kenergy states that without the proposed accounting treatment of the retired electro-mechanical meters, it would incur a large one-time negative adjustment to its 2015 income statement that would jeopardize its RUS mortgage covenants. Kenergy believes the proposed adjustment is a one-time amount that should not be expensed in a single year, since the meters were accumulated over a period of years. Kenergy provided the following proposed entry to retire the electro-mechanical meters:

Debit Acct. 108.6 Accumulated Depreciation	$525,127	
Debit Acct. 182.2 Unrecovered Plant	$3,884,717	
Credit Acct. 370.0 Meters		$4,409,844

Kenergy proposes to amortize the loss of $3,884,717 on the unrecovered plant over ten years, which would result in an expense of $388,472 each year, beginning with the year the annual amount is placed in member rates during its next base rate case.[4] Kenergy believes an amortization period of either ten or 15 years is reasonable, but

[2] Case No 2014-00376, *Application of Kenergy Corp. for an Order Issuing a Certificate of Convenience and Necessity to Install an Automated Metering and Infrastructure System* (Ky. PSC Feb. 24, 2015).

[3] *Id*. at 2.

[4] *See* Kenergy's response to Commission Staff's First Request for Information, Item 4.

prefers using ten years to be sure the loss is completely amortized before the new AMI meters' useful life ends, currently estimated at 15 years.[5]

DISCUSSION

A regulatory asset is created when a utility is authorized to capitalize an expenditure that under traditional accounting rules would be recorded as a current expense. The utility would then have the opportunity to request recovery of the capitalized amount in future rates. The authority to establish regulatory assets arises out of 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. Utilities must obtain Commission approval for accounting adjustments before establishing any expense as a new regulatory asset.[6]

The Commission has previously approved regulatory assets for jurisdictional utilities[7] when a utility has incurred: (a) an extraordinary, nonrecurring expense which could not have been reasonably anticipated or included in the utility's planning; (b) an expense resulting from a statutory or administrative directive; (c) an expense in relation to an industry-sponsored initiative; or (d) an extraordinary or nonrecurring expense that

[5] *See* Kenergy's response to Commission Staff's Second Request for Information, Item 1.

[6] Case No. 2001-00092, *Adjustment of Gas Rates of the Union Light, Heat and Power Company* (Ky. PSC Jan. 31, 2002).

[7] The Commission approved the establishment of regulatory assets for Asset Retirement Obligation-related depreciation and accretion expenses for Louisville Gas and Electric Company and Kentucky Utilities Company when those utilities adopted Statement of Financial Standards No. 143, *Accounting for Asset Retirement Obligations*, respectively, in Case No. 2003-00426, *Application of Louisville Gas and Electric Company for an Order Approving an Accounting Adjustment to be Included in Earnings Sharing Mechanism Calculations for 2003* (Ky. PSC Dec. 23, 2003), and Case No. 2003-00427, *Application of Kentucky Utilities Company for an Order Approving an Accounting Adjustment to be Included in Earnings Sharing Mechanism Calculations for 2003* (Ky. PSC Dec. 23, 2003).

over time will result in a savings that fully offsets the cost.[8] Here, Kenergy did receive approval in the form of a Certificate of Public Convenience and Necessity, issued in Case No. 2014-00376, to replace all of its electro-mechanical meters. The basis for the Commission's approval of the installation of an AMI system was the significant benefits to be provided through two-way communication that will allow Kenergy to either automatically control or systematically monitor distribution voltage, capacitance, and switching within its system. The AMI system will be used by Kenergy to remotely activate or deactivate meters at apartments and on seasonal accounts, and meters that have been disconnected then reconnected in the last 18 months. Further, the AMI meters will display the on or off status directly on the meter display. Considering all of the benefits of Kenergy's AMI system, the Commission finds that establishing a regulatory asset for the loss on the retirement of the electro-mechanical meters is consistent with the last listed example. In addition, recording a regulatory asset assists Kenergy in complying with its RUS mortgage covenants by not reflecting the retirement loss in one year as would otherwise be required by the RUS Uniform System of Accounts.

The Commission also finds that Kenergy's establishment of a regulatory asset under the circumstances presented here leads to a fair, just, and reasonable result by ensuring the loss on the retirement of the electro-mechanical meters is recorded without creating a distortion in Kenergy's financial statements. The Commission also finds that

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[8] *See* 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). *See also* Case No. 2010-00449, *Application of East Kentucky Power Cooperative, Inc. for an Order Approving the Establishment of a Regulatory Asset for the Amount Expended on Its Smith 1 Generating Unit* (Ky. PSC Feb. 28, 2011).

rather than setting the balance of the regulatory asset at $3,884,717, Kenergy shall record a regulatory asset based on the undepreciated electro-mechanical meter balance at the time of the retirement, which should be less than $3,884,717.[9] The Commission further finds that Kenergy should provide with its 2015 and 2016 annual reports the number of electro-mechanical meters retired in the year of the report and the amount of the regulatory asset related to that year's retirement. Finally, the Commission finds that approval of the regulatory asset is for accounting purposes only, and that the amortization period for both accounting and ratemaking purposes will be addressed as part of the ratemaking treatment in Kenergy's next base rate case.

For these reasons, we will approve Kenergy's proposal as modified herein.

IT IS THEREFORE ORDERED that:

1. Kenergy's request to record a regulatory asset for the loss on the disposal of its electro-mechanical meters and to establish a ten-year amortization period for the regulatory asset is denied.

2. Kenergy is authorized to record a regulatory asset for the loss on the disposal of its electro-mechanical meters based on the undepreciated balance on the electro-mechanical meters retired at the time of their retirement.

3. The regulatory asset established pursuant to this Order shall be for accounting purposes only.

4. Kenergy shall provide with its 2015 and 2016 annual reports the number of electro-mechanical meters retired during the year of the report and the amount of the regulatory asset related to the retirement during that year.

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[9] The $3,884,717 amount was the undepreciated balance of the electro-mechanical meters at December 31, 2014. Depreciation should continue on the electro-mechanical meters until they are replaced with the AMI meters.

5. The amortization period for the regulatory asset will be addressed as part of the ratemaking treatment in Kenergy's next base rate case for both accounting and ratemaking purposes.

By the Commission

ENTERED

AUG 3 1 2015

KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:

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