

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC INVESTIGATION INTO THE)	
OPERATIONAL CAPACITY AND)	CASE NO.
INFRASTRUCTURE OF GRAYSON RURAL)	2020-00018
ELECTRIC COOPERATIVE CORPORATION)	

ORDER

This matter arises upon Grayson Rural Electric Cooperative Corporation's (Grayson RECC) motion filed on March 19, 2020, to schedule an informal conference. On March 6, 2020, the Commission initiated this investigation and ordered that a comprehensive audit of Grayson RECC's infrastructure be conducted by a competent, qualified, and independent firm. This investigation was predicated on findings in a management audit of Grayson RECC, filed in Case No. 2019-00101 (Management Audit), that identified a large number of financial management and operational deficiencies, but did not conduct a detailed review of Grayson RECC's infrastructure due to the limited scope of the Management Audit.¹

In its motion, Grayson RECC explained that it requested an informal conference to understand the scope of this proceeding before the Commission issues a request for proposal (RFP). Grayson RECC asserted that many of the proposed topics to be addressed in this proceeding were already addressed in the Management Audit. Grayson RECC maintained that conducting a second audit is time and money intensive and

¹ Case No. 2019-00101, *Electronic Investigation into the Management and Operation of Grayson Rural Electric Cooperative Corporation* (Ky. PSC Feb. 27, 2020).

proposed that the Commission pursue alternatives to another audit as the better and more productive use of Grayson RECC's members' resources. Grayson RECC suggested that it be responsible for conducting the investigation or that the scope of the Management Audit be expanded so that the third-party auditor selected in Case No. 2019-00101 could address infrastructure.

The Commission is not persuaded by Grayson RECC's arguments and, for the reasons set forth below, finds that Grayson RECC's motion to schedule an informal conference should be denied. First, in regard to Grayson RECC's request that an informal conference be held to permit it to discuss the matter prior to the Commission issuing a RFP, the Commission will follow a similar process used in Case No. 2019-00101, which included meetings with Grayson RECC prior to finalizing and issuing an RFP.

Second, the Commission disagrees that the Management Audit addressed infrastructure topics relevant to this proceeding. The purpose of this proceeding is to investigate the infrastructure engineering, infrastructure facilities planning, infrastructure construction, infrastructure operation, and infrastructure maintenance.² The Management Audit identified a large number of significant failures in Grayson RECC's financial management, budgeting and accounting processes. However, the Management Audit was not exhaustive and did not address infrastructure issues. The Management Audit expressly recommended a separate proceeding to investigate Grayson RECC's infrastructure in light of the significant failures in Grayson RECC's business judgment described in the Management Audit. As discussed in the Order initiating this proceeding, the Commission chastised Grayson RECC in two recent rate cases for Grayson RECC's

² Case No. 2020-00018, final Order (Ky. PSC Mar. 6, 2020) at 3.

lack of sound business judgment and how poor business judgment impacted Grayson RECC's infrastructure.³ Given the Commission's statutory duty to ensure that Grayson RECC provides electric service that is safe, adequate, and reliable, an investigation into and audit of Grayson RECC's infrastructure is reasonable and warranted.

Third, it is critical that an independent third party conduct an audit of Grayson RECC's infrastructure planning, infrastructure management, infrastructure maintenance, and infrastructure operation. Grayson RECC's history of failing to address identified issues precludes a determination that it can be relied upon to conduct a robust investigation into its infrastructure and develop appropriate recommendations to cure identified deficiencies. Further, the Commission cannot arbitrarily expand the contractual scope of the RFP issued in Case No. 2019-00101 so that the winning bidder in that case can now investigate infrastructure issues in this case. A new RFP must be issued in compliance with procurement statutes and regulations.

Fourth, the Commission acknowledges that there is a cost to conducting an audit pursuant to KRS 278.255. Given Grayson RECC's history of failing to correct its unsound business practices, the audit cost is a necessary expense to ensure that Grayson RECC provides safe, adequate, and reliable electric service to its members. As with the Management Audit, the audit costs incurred in this proceeding will be allowed in the cost of service for ratemaking purposes.

IT IS THEREFORE ORDERED that Grayson RECC's motion to schedule an informal conference is denied.

³ Case No. 2020-00018, final Order (Ky. PSC Mar. 6, 2020) at 2–3.

By the Commission

ENTERED
MAR 25 2020 TCS
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2020-00018

*Grayson R.E.C.C.
109 Bagby Park
Grayson, KY 41143

*Grayson R.E.C.C.
Grayson R.E.C.C.
109 Bagby Park
Grayson, KY 41143