

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)	

NOTICE OF FILING

Notice is given that the attached Staff Response to Grayson Rural Electric Cooperative Corporation's (Grayson) Management Audit Plan by Recommendation has been filed in the record of the above-styled proceeding.



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GRAYSON MANAGEMENT AUDIT ACTION PLAN BY RECOMMENDATION 07/24/20

In addition to Grayson's reported recommendation updates, it provided an overview improvement that had been made since October 2020 in several areas addressed by audit recommendations.

Overtime Hours¹

Year	System Value	US Total			State Grouping			Major Current Power Supplier		
		Median	NBR	Rank	Median	NBR	Rank	Median	NBR	Rank
RATIO 111 --- OVERTIME HOURS/TOTAL HOURS (%)										
2016	5.06	4.56	808	333	6.11	22	16	5.71	16	10
2017	5.30	4.76	811	343	5.44	22	14	5.44	16	10
2018	6.04	4.96	813	292	6.90	22	19	6.77	16	14
2019	5.63	4.82	815	288	6.03	22	15	5.78	16	10
2020	4.47	4.88	814	452	6.11	22	21	5.87	16	15

Since 2018, Grayson's overtime hours as a percentage of total hours has continued to decrease. As seen in the chart above, 2020 has seen a reduction from 6.04% in 2018 to 4.47% in 2020. This overtime percentage is the second lowest in the state as well as in the East Kentucky Power group.

Total Cost of Electric Service per consumer¹

Year	System Value	US Total			State Grouping			Major Current Power Supplier		
		Median	NBR	Rank	Median	NBR	Rank	Median	NBR	Rank
RATIO 107 --- TOTAL COST OF ELECTRIC SERVICE PER CONSUMER (\$)										
2016	1,979.25	2,188.66	809	531	1,989.93	22	12	1,940.73	16	7
2017	2,099.60	2,200.65	813	452	1,987.28	22	8	1,865.41	16	4
2018	2,065.80	2,294.79	814	532	2,052.02	22	11	1,990.16	16	6
2019	1,982.40	2,277.56	816	577	1,969.51	22	11	1,923.75	16	6
2020	1,897.56	2,204.46	815	595	1,847.73	22	10	1,795.82	16	5

Changes implemented through our action plan have aided in the reduction of the total cost of electric service to our membership as show above. Nearly \$200 of savings per consumer have been realized since 2018.

¹ 2020 KRTA Report – CFC.

Blended Interest Rate²

Year	System Value	US Total			State Grouping			Major Current Power Supplier		
		Median	NBR	Rank	Median	NBR	Rank	Median	NBR	Rank
RATIO 23 --- BLENDED INTEREST RATE (%)										
2016	2.18	4.06	801	783	3.34	22	17	3.05	16	11
2017	2.40	3.96	807	781	3.24	22	17	3.10	16	11
2018	2.69	3.98	808	775	3.49	22	19	3.37	16	13
2019	2.94	3.98	809	762	3.70	22	19	3.55	16	13
2020	1.79	3.69	807	801	3.06	22	21	2.99	16	15

Savings from Grayson's long-term interest rates have been crucial in reducing expenses as well as vastly improving their financial metrics, including TIER and OTIER. Current blended interest rate of 1.79 is the 2nd lowest in the state and EKPC group, as well as the 7th lowest among Cooperatives serviced by CFC (807).

² 2020 KRTA Report – CFC.

Financial Metrics³

Year	System Value	US Total			State Grouping			Major Current Power Supplier		
		Median	NBR	Rank	Median	NBR	Rank	Median	NBR	Rank
RATIO 6 --- TIER										
2016	2.78	2.62	809	358	2.77	22	11	2.99	16	11
2017	-0.57	2.57	813	808	1.97	22	22	2.35	16	16
2018	1.90	2.80	814	706	2.74	22	18	2.79	16	15
2019	2.70	2.64	816	395	2.43	22	7	2.58	16	7
2020	3.37	2.80	815	264	2.81	22	8	2.84	16	6
RATIO 8 --- OTIER										
2016	1.19	1.94	809	726	1.32	22	15	1.24	16	10
2017	-1.23	1.94	813	806	1.39	22	22	1.39	16	16
2018	0.92	2.17	814	796	1.70	22	21	1.70	16	15
2019	1.85	2.03	816	487	1.39	22	5	1.39	16	3
2020	2.78	2.24	815	251	1.89	22	4	1.89	16	2
RATIO 10 --- MODIFIED DSC (MDSC)										
2016	1.57	1.83	809	574	1.67	22	14	1.54	16	8
2017	0.72	1.82	813	811	1.59	22	22	1.46	16	16
2018	1.40	1.92	814	744	1.74	22	20	1.68	16	14
2019	1.89	1.91	816	420	1.82	22	7	1.82	16	4
2020	1.96	1.96	815	407	1.85	22	10	1.82	16	7

Since 2018, Grayson has seen significant improvement in their TIER, OTIER, and Modified DSC. As a focal point in many of the recommendations, Grayson feels that through the actions taken so far, benefits from the changes have resulted in better financial management and shown through the metrics above.

Reliability Indices – Updated thru Sept 2021

with T-MED	2020	2021 (Jan-Sept)
SAIDI	338.4	11,588
SAIFI	2.48	4.30
CAIDI	136.5	2,694.9

w/o T-MED	2020	2021 (Jan-Sept)
SAIDI	338.4	332.8
SAIFI	2.48	1.92
CAIDI	136.5	173.33

³ 2020 KRTA Report – CFC.

Vantage Energy Consulting Audit Recommendations

RECOMMENDATION – II-R1

II-R1 Develop or purchase a financial model that provides detailed and actionable information on Grayson’s financial picture. (Priority: Medium)

In order to manage its business and prevent recurring financial difficulties it is crucial that Grayson develop the tools and processes to enable visibility into and management of their finances.

Currently, Grayson is exploring a financial model, which is provided by National Rural Utilities Cooperative Finance Corporation (“CFC”). This model is certainly a step forward but does not provide the monthly management information that is necessary to manage Grayson’s finances.

Grayson needs to develop a financial model that tracks all expenses on a monthly basis and ties directly to the CFC, and can provide the basis for at least a four-year plan. This model does not need to be elaborate or expensive. The model could be developed in-house.

Status Update

Grayson has continued to provide relevant and informational financial information to board members for review on a monthly/quarterly/annual basis for their review. Discussions with CFC advisors as well as with our financial auditors confirmed that the information we were presenting to the board was in line with others. They provided no additional information to present. Please find attached in Exhibit A copies of financial presentations given to the board members.

The board has been complimentary of the information presented and feels that it has adequately assisted them in portraying the financial state of the cooperative. Their only request since the initial update was to continue with the TIER reports, creating additional scenarios based on conditions and events at the coop.

Attached, please find Exhibit A, which contains output from CFC’s Budget Pro program, as well as a copy of the 2021 Budget. Grayson utilized output from Compass, Budget Pro, as well as their own excel program to complete the 2021 budget.

As part of the Strategic Planning Initiative and Comprehensive Financial Plan development, Grayson will be working with CFC to better utilize both programs for development and utilization. While initial use of the products produced beneficial information, Grayson feels that additional information can be utilized and presented through training and assistance.

CFC will be working with Grayson this year, in conjunction with completing the Financial Plan, to better utilize Compass and BudgetPro. Grayson’s territory manager

will be visiting the coop in November to assist with utilizing the products for optimal results. Formal documentation did not exist in detailing the benefits of combining Budget Pro and Compass program, as it was an observation from preliminary usage of the two programs

Next Steps

Continue to review and present relevant financial information to Staff and Board of Directors necessary to make informed decisions.

Utilize CFC financial products Compass and BudgetPro to assist in developing budget and financial data.

Staff Response - ONGOING

The detailed information provided in Exhibit A from the CFC Compass and Budget Pro software represents a significant improvement to what had been provided to Grayson's Board of Directors previously. For the next Management Audit Progress Report (MAAP) please provide an update on Grayson's progress in working with CFC to develop additional budget and financial data and reports.

RECOMMENDATION – II-R2

II-R2 Identify a regulatory liaison and communicate to the KPSC. (Priority: Low)

Provide clarity as to the formal means of communicating between company and regulatory bodies. A single point of communication will enable management employees, BOD members and others to be able to reach out with questions to a single point.

Status Update:

In response to the follow up from our initial status update, Bradley Cherry remains the liaison between the cooperative and regulatory agencies. Sherry Buckler has been appointed as a backup in this role.

Next Steps:

Grayson considers this recommendation Complete.

Staff Response - COMPLETE

With the continued designation of Bradley Cherry as the main point of contact and liaison between Grayson RECC and regulatory agencies and Sheri Buckler as his appointed liaison back-up, Staff agrees that Grayson has fulfilled the intent of this recommendation. This recommendation is in Complete status and no further reports are required.

RECOMMENDATION – II-R3

II-R3 Improve process for evaluating and determining causes of outages. **(Priority: Medium)**

Additional forensic or root cause analysis is warranted in evaluating outages. This evaluation is needed, because knowing the cause of outages is essential for setting budgets and establishing priorities.

Status Update:

Grayson has continued to focus on improving its' process of documenting and evaluating outages to assist in reliability and cost control.

To assist in the accurate reporting of outages, the following was adopted as a standard for any outage:

When an employee is called out on trouble, they shall:
Check in with dispatch every 2 hours

When trouble has been corrected, the employee shall:
Report time of restoration (if applicable)
Report cause of trouble when power has been restored
Report nearest pole number where trouble occurred.

If trouble was taken after working hours, the employee(s) shall report to dispatcher when they have arrived home.

The plan was communicated during a safety meeting with all operations employees, as well as a refresher on reporting outage cause codes and their importance.

Animal Outages

When an outage occurs that was determined to be caused by an animal, a guard is installed to prevent the likelihood of a future outage. In areas where animal caused outages are prevalent, additional guards would be deployed on surrounding poles to assist in preventing future outages. To date, 208 animal guards have been installed. As seen below, the count and percentage of total outages caused by animals has significantly improved, reducing the count by approximately 43 percent.

2020 to 2021 Comparisons	2021		2020	
	Count	Percentage of Total	Count	Percentage of Total
Outage Causes (excluding Major Event Days)				
600 Small animal/bird	183	6.8%	323	20.0%

Overall Outage Improvements

While a focused was made on reducing the number of animal related outages, as a system Grayson was able to improve their outage numbers in many other areas as well.

Maintenance outages were reduced by nearly 38 percent, construction outages by 35 percent, and decay/age of equipment by 45 percent just to mention a few. The chart below summarizes the outage improvements from 2020 to 2021.

2020 to 2021 Comparisons	2021		2020	
	Count	% of Total	Count	% of Total
110 Maintenance	190	7.1%	307	19.0%
600 Small animal/bird	183	6.8%	323	20.0%
300 Material or equipment fault/failure	59	2.2%	60	3.7%
100 Construction	37	1.4%	57	3.5%
800 Other	31	1.2%	57	3.5%
400 Decay/age of material/equipment	28	1.0%	51	3.2%
770 Consumer's Problem	22	0.8%	29	1.8%
470 Borrower crew cuts tree	19	0.7%	24	1.5%
700 Customer-caused	11	0.4%	21	1.3%
510 Wind, not trees	10	0.4%	24	1.5%
790 Public, other	8	0.3%	20	1.2%
730 Fire	6	0.2%	9	0.6%
490 Maintenance, other	1	0.0%	2	0.1%
360 Other equipment installation/design	1	0.0%	16	1.0%
740 Public cuts tree	1	0.0%	3	0.2%
410 Corrosion/abrasion of material/equipment	1	0.0%	5	0.3%
750 Vandalism	1	0.0%	2	0.1%

Fault Finders

A device that hangs on or near a power line that tell you if there is a fault (high amperage surge) correlating to an OCR operation on a line. This device would aid in locating trouble on a power line.

Outage Reports

Attached in Exhibit B, please find a copy of the last 6 months outage reports.

Next Steps:

Continue communication to operations employees of importance of consistent and accurate reporting

Monitor effectiveness of animal guards

Address issue of off right-of-way trees.

Monitor any significant changes in outage causes and address issue proactively.

Staff Response - ONGOING

Grayson's is to be commended for making marked improvements in its outage reporting and categorizing processes and in the reduction of its outages overall. Its updated processes appears to be meeting with success. For the next audit report, Grayson should continue to monitor and report on whether its efforts are continuing to reduce outages. Also, report on what further actions Grayson has taken to address off ROW trees. Finally, include in the response whether there have been any marked changes in outage causes and if so, what actions Grayson has taken in response.

RECOMMENDATION – II-R4

II-R4 Develop a formal procedure for the tracking and resolution of complaints. **(Priority: Medium)**

The process currently used by Grayson RECC is dependent on the experience of current personnel at the Cooperative. In this arrangement, there is always the concern that a change in personnel could change the process. In order to have an equitable and consistent treatment of complaints a formal procedure is needed. The function should be centralized in one area to assign tracking numbers and maintain the files, including all documentation associated with the resolution of the complaint. The procedure should identify the personnel that need to be involved in the resolution of the complaint. The procedure should also specify the time for resolution in order to ensure the timely resolution of the complaint. The procedure should specify how a complaint will ultimately be resolved if there is no clear resolution by the assigned department.

Status Update:

Grayson has continued to utilize the Complaint process initiated through this recommendation. To date, 37 complaints have been documented and filed through our process; zero of those complaints have resulted in formal complaints.

Attached in Exhibit C is an example of a complaint filed as well as the documentation associated with the complaint. Below you will find a snapshot of a complaint with multiple entries that were documented by multiple users.

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Next Steps

Grayson considers this request complete with the expectation that all complaints will continue to be documented and necessary adjustments will be made to the process as necessary.

Staff Response - COMPLETE

Grayson's complaint procedure and the example of a complaint documentation and resolution filed as Exhibit C in the response show that Grayson has fulfilled the intent of this recommendation. Staff encourages Grayson to continue to improve its complaint resolution process as needed. This recommendation has been placed in COMPLETE status and no further reports are required.

RECOMMENDATION – II-R5

II-R5 As the opportunities arise, Grayson should strive to include more diversity on its Board. (Priority: High)

Currently, the Board of Directors (“BOD”) consists of all white males. As opportunities arise, Grayson should encourage and actively support a more diverse Board but with the priority of ultimately engaging the most qualified individuals. The more diverse views will lead to better understanding of the views of all of its members.

Status Update:

Member Advisory Council:

Due to the environment with Covid-19, discussions of a Member Advisory Council and holding any type of meeting have been tabled until the situation improves.

Training

Board Members continue to participate in training programs offered through our Kentucky statewide association as well as NRECA, with the goal in obtaining and or retaining their director certificates with NRECA.

In the September 2021 board meeting, Grayson’s policy regarding board director qualifications was revised to require completion of the CCD certificate within a 24-month period of becoming a board member to encourage receiving the education and knowledge base needed to effectively serve as a board member.

Exhibit D includes documentation of discussions regarding attributes of successful directors as well as meeting minutes from requested May meeting.

Next Steps

Revisit the idea of a Member Advisory Council at a later date when restrictions and concerns from Covid-19 are eased.

Continue training opportunities with board members, encouraging them to achieve or retain their director’s certification with NRECA.

Staff Response - ONGOING

Staff notes that the onset and continuation of the Covid virus has hampered the formation of a Member Advisory Council. The notes in Exhibit D Board Minutes excerpt, state that Bradley Cherry will report to the Board on other distribution cooperative Member Advisory Councils. For the next MAAP report, provide a copy of Mr. Cherry’s report to the Board and the current status of the Advisory Council formation. Also, a primary recommendation focus was increasing board diversity. While an advisory council will be an important avenue for member views and concerns to be brought to the Board’s attention, it is not a

voting board member. Staff acknowledges that Grayson's member demographics may complicate its efforts to increase diversity, but that should not preclude ongoing efforts to do so. For example as a start, the Board could be expanded from six back to seven members by creating an At-Large position that could be dedicated to women and minority membership. Staff notes that this Recommendation is closely related to Recommendation II-R7.

For the next MAAP report, Grayson should report on its ideas and efforts to increase Board diversity. Staff notes that Grayson's response to II-R7, the Board may experience some turnover in Directors, which may also present opportunities. Finally, Staff notes the importance of board members attaining their NRECA director certification. In the next report, Grayson should report on whether all Board members have attained their NRECA certification. And, if not, how many board members have not and an estimate of when the certification process will be completed.

RECOMMENDATION – II-R6

II-R6 Create a more transparent process of governance. (Priority: High)

There seems to be some pressure within rural cooperatives to have an understanding of the decision-making processes and the budgetary impact of those processes on the members of the cooperative. Grayson, with its significant focus on caring for its employees, should extend that to more fully engage all the members by having open board meetings so the membership can see how the Directors are responsible and accountable for the decisions they make. This process could inspire others to pursue membership on the Board and expand the diversity and experience of the Board members.

Vantage recommends that Board meetings be open, except where confidential information, contracts or compensation are discussed.

Status Update:

In response to Grayson's first update, Board Briefs have been restructured to help ensure more contextual information. Comparison to budget, previous year, goals, etc. have been included with each board brief when applicable. A conscious effort has also been made to expand the information presented and to provide as much insight as possible to important information discussed at each month's board meeting. Feedback from the engagement has been minimal.

Grayson reviews and updated Policy 120, regarding attendance at meetings by the members. While Grayson still requires members to request attending a board meeting, the steps for approvals have been greatly diminished. Requirements of completing a form, waiting 30 days for the board to approve, and then attending have been amended. A member with a concern or interest of information, by request, can have the opportunity to address the board in the opening session of the monthly board meeting.

In March of 2021, a member did request to attend the monthly board meeting and came and spoke of their concerns and their praise with the winter ice storm and the work the cooperative completed. After discussions, the member left and the Board continued with their monthly business. Occurrences like these are what Grayson envisioned Vantage's recommendations would achieve.

Rotating strategic membership meetings have continued to be tabled through Covid-19 pandemic concerns.

Next Steps:

Continue Board Briefs and communications to our membership.

Staff Response - ONGOING

Despite the fact that feedback from board members has been minimal, the additional information provides necessary detail allowing for more informed decisions. For the next MAAP report, provide a copy of updated Policy 120 regarding board meeting attendance. If not addressed in Policy 120, explain how far in advance a member must request board meeting attendance. Also, Covid virus counts are relatively low at the moment. Provide a status update on Grayson's efforts to hold strategic membership meetings. This recommendation remains in Ongoing status.

RECOMMENDATION – II-R7

II-R7 Directors’ fees and expenses should be carefully monitored and managed jointly by both the Board and Grayson management. (Priority: Medium)

Grayson’s financial challenges are real, and the Board has an opportunity to serve as real leaders in the community and Cooperative by establishing pay guidelines for itself that model the reality of the economics of the service territory. At a minimum, they should consider re-instituting the original per diem and reducing the cash in lieu of health care to the \$3250/year that employees receive. Since the majority of the members have been on the board for many years and attendance at training sessions has long since diminished, the miscellaneous expenses should be scrutinized and substantive limitations put in place.

Status Update:

Board expenses have continued to be scrutinized and approved on a monthly basis. As seen below in the chart, Grayson has made significant strides in reducing their Director’s expenses. Covid-19 precautions have continued to assist in reducing costs, specifically in travel. However, as restrictions and concerns from the pandemic are eased, Grayson anticipates that certain practices will remain in effect, specifically the increased use of virtual meetings and education, which would allow for continued reduction in travel and director expenses.



*2021 – Based on projected expenses at the end of 2021. Through July of 2021, expenses totaled \$71,625.53

During the Board’s review of the Policy 110 – Director Compensation and Expenses, an update was recommended to the policy in conjunction with review of Policy 103, which

stated that all directors were required to receive their initial certification within 24 months. A copy of the Board Minutes excerpt is contained in Exhibit E.

Discussions regarding Vantage's recommendation of reverting to the original per diem and a stipend for \$3,250 in lieu of insurance were held. Based on the success of the steps that the board had taken and the significant reduction in expenses realized to this point, they did not feel that any changes needed to be made to the current compensation schedule.

A significant concern that board members had during their discussions was the importance of having well qualified and educated board members to serve in the important and increasingly difficult role of a board member. As turnover in the board is likely to occur over the next several years, reducing the benefits of serving in the role of a board member could lead to difficulty in securing a skilled and proficient board to govern the cooperative.

Grayson's board also agreed to permanently reduce the number of board members from seven to six in a recent planning session. A seat representing Elliott County had remained open for the previous two plus years. The Board agreed that through the experience of the past two years that it was unnecessary to refill the position and would aid in managing the costs associated with the board.

Next Steps:

The Board will continue all steps in approving meeting and expenses for board members at the monthly Board meeting. Comparisons and YTD totals will be available for their review and discussion.

The Board will also continue to annually review the Director Compensation and Expense Policy during the budget process.

Staff Response – ONGOING

This recommendation is related to Recommendation II-R5 concerning increasing Board diversity. Staff acknowledges Grayson's success in lowering Director compensation and recognizes that there is some compensation level that will be reached sufficient to attract and retain educated qualified individuals that continues to fulfill the intent of the recommendation. For the next MAAP report, provide a copy of the Board minutes approving the reduction of Board membership from seven Directors to six Directors. Finally, provide a discussion of any changes to the Director Compensation and Expense Policy following the annual review.

RECOMMENDATION – II-R8

II-R8 Increase involvement by the Board in the strategic planning process with a focus on actions that have an impact on TIER. (Priority: High)

The Strategic Planning section of this audit report discusses in detail a planning process focused primarily on Times Interest Earned Ratio (“TIER”). The Board’s involvement in that process could be accomplished by including an additional agenda item for the monthly Board meetings or preferably a quarterly or six-month meeting devoted entirely to strategic planning. Specifically, the strategic planning sessions should focus on financial and operational goals and the detailed steps to accomplish those goals.

Status Update:

Following the strategic planning session held in September, CFC provided Grayson with an executive summary of strategic planning initiatives. These initiatives were discussed with Grayson staff and Board of Directors. A copy of this report has been included in Exhibit F.

Outcomes from Strategic Session:

Adoption of a new mission statement:

Serving our members and their communities Reliable – Safe – Efficient

This mission has been the leading idea in developing plans and decision-making.

Goals and Plans to achieve

Comprehensive HR Plan – Ensuring our members have a team that effectively and efficiently provide service

Long Range Capital and Operations Plans

Technology – Ensure safe and reliable power is distributed to our members

Capital System/General Plant – Reliability and Efficiency

Operational Activities

Communications – Ensuring our members have the knowledge and information needed

Financial Plan – Ensure all decisions are beneficial and affordable to our members. Assist in providing efficient, reliable, affordable solutions.

Safety Plan – Promote safety for employees and members

Each of these plans will be developed and presented to the board, from which additional objectives and achievements can be established.

A timeline of the end of the first quarter 2022 is set for all plans to be completed and presented to the Board.

CFC will be assisting with the completion of the financial plan, scheduled to take place in November 2021.

Netgain has and will continue to assist with all technology planning.

Next Steps

Complete all goals and objectives from initial strategic planning with CFC.

Utilize the strategic plan as a tool in the operations and planning of Grayson RECC and all decisions made.

Continue to review and modify, as necessary, the strategic goals set forth and discuss on a periodic basis at future board meetings.

Staff Response - ONGOING

Staff applauds the time and effort Grayson has spent toward formulating a strategic plan. For the Next MAAP report, provide an update on the status of Grayson's progress in completing each of the four strategic plan goals as presented in the CFC summary in the response, Exhibit F, including the Board presentations and any additional objectives and achievements that have been established. Also, if the strategic plan goals have been completed, include in the update on any resulting policy, organizational, operational or personnel changes.

RECOMMENDATION – II-R9

II-R9 The Board of Directors should take the lead in meaningful cost savings measures, to assure Grayson’s members have affordable electricity now and in the future. (Priority: Medium)

The Board, with input from management, should be the driver in streamlining Grayson’s operations and reducing costs to make it competitive. This is an experienced BOD and it has adequate current and historical information needed to make meaningful changes. The Board should work with the management team to move forward with bold plans that reduce costs and assure financial stability.

Status Update:

Due to the focus of the financial stability and concern with TIER and adhering to the budget, the Board felt that all members should be present currently when discussing and reviewing the budget, as well as any update throughout the year. A standing committee consisting of three board members is in place, however, as state above, the board currently feels that all members should participate as a whole.

The overall goal of achieving a 1.25 TIER was crucial during the discussion and approving of the 2021 budget. As expenses, projects and projects were discussed, any significant variations were computed and displayed, ensuring goals were met, specifically TIER.

Cost Savings / Strategic plan

During the budget review process, each item contained in the capital and operations budget is discussed and scrutinized with the board for its value and necessity. Each department manager requesting items to be included takes the responsibility to ensure that what is present is necessary and that the lowest cost possible is negotiated. All departments have been asked to include only items that are necessary for the continued operations of the cooperative to ensure the goals to our members are met.

Reliability, safety, and efficiency, key components in our strategic goals and mission statement, are considered outside of the financial component of all budget items.

By looking at the 2021 budget, you can see that even with the inclusion of a storm budget of five hundred thousand dollars, a TIER of 2.03 was projected.

Next Steps:

Grayson will continue to monitor the budget and financial status of the cooperative and will utilize this information to recommend any changes to the capital and operational items listed in the budget.

This will be an ongoing project not only in the current budget but in subsequent budgets as well.

Grayson feels that this recommendation is complete, with the understanding that the implemented process continues through current year and subsequent years.

Staff Response -ONGOING

It appears that Grayson's budgeting process is in line with the intent of the recommendation. Going forward, Grayson should benefit from having staff present and defend budget request before the Board. Looking at the 2021 budget in Exhibit A page 57 of 61, the projected TIER of 2.03 is presented. Exhibit G, which appears to present 2021 budget actuals through July and budget forecasts August through December, presents TIER and OTIER calculations. Exhibit G appears to show that the TIER and OTIER are far above what was originally projected, even with the inclusion of storm expenses. For the next MAAP report, provide a discussion of how the projected 2021 budget TIER and OTIER Compares to the 2021 actual TIER and OTIER. Also provide a discussion of the 2022 projected budget TIER and OTIER as compared to the 2022 actuals, similar to what is provided in Exhibit G.

Also, please elaborate on what the statement, " Reliability, safety, and efficiency, key components in our strategic goals and mission statement, are considered outside of the financial component of all budget items." means in terms actually crafting a projected budget. Include in the response a list of projects or budget requests that fell into the reliability, safety and efficiency categories that, presumably were necessarily included in the budget. Staff understands that this can be a nuanced response. For example, certain maintenance or construction projects may be prioritized as being needed for reliability or safety reasons, while others could be delayed for a period. Staff notes that this recommendation and response is closely tied to Recommendation III-RI.

RECOMMENDATION – III-R1

III-R1 Initiate a new strategic plan that includes re-defining Grayson’s primary mission “To Maintain a TIER of 1.25 or Greater” along with other key operational targets. (Priority: High)

All other business attributes such as safety, reliability, and customer service should be defined as strategic goals that support the TIER based mission. Since this strategic plan focuses on financial issues, it can probably be performed with little or no outside support costs.

Each major Expense and Capital budget initiative should be evaluated and ranked in terms of priority, based on benefit/cost, risk of not achieving strategic goals and impacts on TIER computation. An illustrative prioritization scheme would identify Priority 1 projects as having the highest priority and must be performed regardless of TIER impact. Priority 2 projects are generally necessary however can be deferred or other lower cost solutions be substituted even at the risk that it does not achieve the same benefit-cost ratio. Finally, Priority 3 projects must be deferred until the TIER is projected to equal or exceed 1.25.

Status Update:

Please see Recommendation II R-8.

Grayson believes this recommendation should be closed and monitored in combination with Request II R-8

Staff Response – ONGOING

See the Staff’s previous comments in Recommendation RII-9. The responses in recommendations RII-8 and RII-9 do not provide sufficient information. Grayson stated that reliability, safety and efficiency were considered outside the financial component of the budget so, presumably projects falling into these categories were considered non-discretionary and were included in the 2022 budget. However, it is still not clear how Grayson categorized the projects, how the three criteria were applied to projects for inclusion or not in the budget, and how the budget breaks out between these non-discretionary and all other budget items. For the next MAAP report, please provide a discussion of these issues.

RECOMMENDATION – III-R2

III-R2 Review the TIER status report and certify that Grayson’s TIER will equal or exceed 1.25 at each monthly board meeting for the following 12-month period. (Priority: Medium)

If the current month or forecasted 12-month TIER fall below 1.25, the Board will require, from management, by the next monthly meeting an action plan to consider the deferment or substitution of Priority 3 and if necessary, Priority 2 expenditures and capital projects in order to achieve the 1.25 target TIER. If after three consecutive months, the Board still cannot certify that the projected TIER will equal or exceed 1.25, the KPSC should be notified by letter from the Grayson CEO and Board Chairman that the TIER is either currently or projected to be below 1.25 during the course of the proceeding 12-month period. In this letter, Grayson should detail the steps taken pursuant to the strategic plan to mitigate the decline in the TIER.

Status Update:

Grayson continued utilization of the TIER models developed. Due to the major winter ice storm that Grayson experienced and the significant costs encountered, an additional model was developed, showing the effects the storms costs had on the financials, specifically TIER.

Because FEMA assistance was anticipated, financial discussions focused on the assumptions that reimbursement for costs associated with the storm likely would occur. The Board did not make any adjustments or take actions in adjusting the budget.

Copies of the models have been included in Exhibit G

Next Steps:

Grayson will continue to utilize these models as well as any other scenarios that may be developed. If projections necessitate, discussions and decisions can be made on the status of capital projects based on TIER and OTIER projections.

Staff Response - ONGOING

Staff notes that this Recommendation is related to Recommendation RII-9 also. The creation of an additional model to compare the budget with and without storm related expenses is informative. For the next MAAP report, in Exhibit G, explain whether the July margin entry of \$7,162,571 includes reimbursement funds from FEMA and confirm that Grayson anticipated that its TIER would be 4.49 at years end.

RECOMMENDATION – IV-R1

IV-R1 Establish an annual process to determine appropriate pay increases for non-union employees that is equitable, defensible, and transparent. (Priority: Low)

Vantage recognizes that a compensation study is expensive; however, it is beneficial to create a program that will serve the system for some time into the future. While Vantage does not recommend a below-market pay structure or program that would foster an employee exodus to greener pay pastures, it is concerning that Grayson lacks a formal documented process that governs employee promotion through the pay ranges that could lead to pay levels that exceed current market rates. Coupled with the lack of transparency in the Board's decisions and minutes, the process provides no opportunity for the members of Grayson to be certain that all employees are treated equitably and in a fiscally-responsibly manner.

As part of the 2020 wage adjustments and with future adjustments, Grayson has focused on two major considerations: financial health of the cooperative and the rate of inflation for the year.

For 2020, the board considered and approved a 1.3 percent increase in wages, after reviewing current and projected margins and TIER as well as the cost of inflation rate (1.4). This resulted in a \$14,495 increase in non-union payroll. Also approved were two merit increases to individuals who were below the minimum pay rate in their job classification totaling \$7,030. This was offset by a reduction in a staff position, resulting in a net decrease in base payroll for 2021 of \$68,012.

Next Steps:

Grayson will continue to utilize the cost of inflation as a factor in determining any wage adjustments for subsequent years.

As part of the developing comprehensive Human Resources plan, an effort will be made on developing a yearly evaluation matrix that will become part of wage adjustment process.

Grayson's current wage and salary study, which was completed in 2017, will be reviewed for any adjustments necessary and to ensure that job classifications and scales are up to date to local, regional, and industry standards. An outside consultant will be utilized for this review.

Staff Response – ONGOING

Grayson is making good progress toward fulfilling the intent of this recommendation. For the next MAAP report, please provide a status update on updating the 2017 wage and salary study. Provide the consultant's report if available and any Board actions taken as a result of the consultant's recommendations.

RECOMMENDATION – IV-R2

IV-R2 Accelerate and amplify Grayson’s plan for employee contributions for health care. (Priority: Medium)

Research conducted by the Kaiser Family Foundation indicated that the typical employee contribution for health care across industries was 20%. Grayson could restructure their health care plan to include an employee contribution closer to the market but combine it with a choice of plans that employees can select based on their personal needs. Additionally, Grayson could consider adding dental and vision benefits at no cost to employees. These, with appropriate benefit limitations, are lower cost items that can offset employees’ out-of-pocket expenses for medical services. There may also be ways to reduce costs through creating/participating in pools with other cooperatives or organizations. Small business organizations frequently offer health care options for members. Options should be explored with their benefits consultant. Employees could be solicited for input prior to any decision.

Status Update:

Grayson continues to manage its benefits programs and look for any cost savings it can achieve while maintaining a benefits package that attracts and retains employees. We remain in constant talks with our benefits advisor with NRECA for any recommendations to alter our plans for the benefits of coverage as well as cost savings.

As discussed initially, Grayson continues to adjust its contributions by their employees. In 2022, the health care contributions will increase from 6% to 9%.

Retirement Plan:

The difference between the 1.7 benefit level for all employees hired on December 1, 2020 or later and the 2.0 benefit level for all employees hired before December 1, 2020 is the percentage at which the benefit is calculated.

As shown in Exhibit H, the benefit is calculated by multiplying the FAES by the benefit rate and number of years of eligible service. A reduction in the benefit level effectively reduces the benefit and the cost of the plan to the employer.

The decision was made by the board to retain the retirement age at 62. The board felt it was appropriate and to change the benefit level only to 1.7 at this time. While increasing the retirement age does reduce the contribution that the cooperative has to fund, it can lead to an increase in overall costs with the additional contributions from 62 to 65.

Health Care Plan:

KREC is the Kentucky Rural Electric Cooperatives Benefits Plan.

Grayson would likely be considered as an unhealthy group due to the significant number of claims it would likely be submitting based on the current health conditions. With the KREC plan, assessments would be based on Grayson's claims alone, whereas with NRECA, assessments are based on the total number of claims through the trust of all applicable cooperatives. Through talks with our benefits advisor, the only recommendation he had in lowering the cost to the cooperative was by increasing the contribution made by the employees.

Health Care Contributions:

Summarized in the chart below are the health care contributions made by Grayson's employees on a weekly basis. Contributions made by non-union employees are on a 3%, 6%, 9%, and 12% basis. Contributions by the union are made on a dollar amount that was equivalent to the percentages listed previously on the 2020 premium level. During negotiations with the union, a firm dollar amount was preferred, with no additional increase due to premium increase.

	Single		Family		Premium		
	Non Union	Union	Non Union	Union	Single	Family	
2020	\$ 6.06	\$ -	\$ 11.86	\$ -	\$ 874.97	\$ 1,712.93	
2021	\$ 12.11	\$ 12.00	\$ 23.72	\$ 24.00	\$ 874.97	\$ 1,712.93	
2022	\$ 19.75	\$ 18.00	\$ 38.41	\$ 36.00	\$ 951.10	\$ 1,849.48	
2023	\$ 26.34	\$ 24.00	\$ 51.22	\$ 48.00	\$ 951.10	\$ 1,849.48	*Subject to change

As with all decisions that the Board and Cooperative make, the goal of providing reliable, safe, and efficient power to our members is achieved by:

- Helping reduce costs that affect the margins and rates of our members
- Providing a benefit package that attracts and retains exceptional employees to serve our members

Benefits levels were discussed on a general basis with other cooperatives. Grayson has focused its contributions based on advisement with the Public Service Commission in other rate case orders.

Next Steps:

Grayson will continue to review its benefits each year and will continuously search for new avenues of coverage and cost savings.

Grayson will also discuss contribution levels and determine the appropriate target goal for employee contributions.

Staff Response – ONGOING

Grayson is making progress toward implementing this recommendation.

Regarding retirement, Staff notes Grayson's Board leaving the retirement age at 62. For the next MAAP report, please provide a copy of the Board resolution / decision to maintain the retirement age at 62. Also, clarify whether Grayson's Board changed the retirement factor to 1.7 for all employees or for just those hired after December 1, 2020.

Regarding the health plan and Exhibit H in the response, it is still not clear as to why Grayson would be considered an unhealthy group under the Humana plan provided by East Kentucky Power Cooperative. For the next MAAP report, please explain whether it is because Grayson has more claims or more costly claims than the other cooperatives? Also, explain whether or not the number of health care claims has declined since the 2019 management audit and what additional measures Grayson has taken to reduce the number of claims, such that future health care premiums might be reduced. If available, please provide a comparison of costs between Grayson's KREC plan and a similar plan with the Humana plan option. Also, explain whether Grayson's benefits advisor is associated with KREC. Finally, explain whether the benefits advisor in conjunction with Grayson considered other suggestions as discussed in the Audit report and recommendation.

Regarding health care contributions, Staff acknowledges the increase in employee health care contributions from 6%-9%.

RECOMMENDATION – IV-R3

IV-R3 Develop an appropriate path to reduce the ongoing pension and post-retirement healthcare liabilities. (Priority: Medium)

Grayson should develop a strategy and implementation plan to rein in the future costs of retirees. This should be a two-fold effort that includes a longer service requirement for pension eligibility as well as including a requirement of retiree contributions for health care. Caps on health care costs, caps on percentage increases absorbed by Grayson, different contributions for pre-Medicare and supplemental insurance, as well as other market benchmarked strategies should be considered. Vantage is aware this is a difficult process, but the ongoing, increasing cost burden to the Cooperative members warrants serious discussions with the unions and Board.

Status Update:

Grayson continued with its utilization of Humana as its provider for Post-65 Retiree Health Insurance. Contributions increase to 6%, equivalent to active employees. Contributions will continue to mirror those of active employees.

The Humana credit from 2021 was utilized towards the base rate for Humana's premium. The credit will not be distributed in 2022.

While most of the discussions with other cooperatives focused on active employees, comparisons with the others were somewhat similar. A difference that was recognized was employee only coverage after retirement.

Grayson continues to review annually the coverages provided to current and future retirees. Individuals covered, percentages, and requirements will continue to be discussed and reviewed.

Staff Response - ONGOING

Staff notes that in Recommendation IV-R2, Grayson indicated that employee health care contributions would increase to 9%, whereas in this recommendation, the contribution increases to 6%. For the next MAAP report, please clarify the post retirement health care contribution amount. Also, it is not clear as to whether Grayson has fully considered the other suggestions to either lower or cap post retirement benefits. Please provide an status update including any board deliberations and decisions in the next report.

RECOMMENDATION – V-R1

IV-R1 Grayson should establish a Disaster Recovery location. (Priority: Medium)

Grayson needs to establish a location or locations from which they can operate in the event of a disaster. It needs to be:

Scalable

Within the service territory.

Part of a plan

Does not need to be a one size fits all (systems and customer service locations can be different).

Status Update:

Grayson has secured two locations to utilize in case of a disaster, located on different sides of our territory (Elliott Co. High School and ACTC Building on the Industrial Parkway). These locations can be used at no cost to the cooperative.

Netgain has been selected to conduct a disaster recovery test in 2022. This test will ensure that our data can be recovered and restored so that business critical applications and operations can continue during and after an event. The cost for this test will be \$7,500 and will be included in the 2022 budget.

Next Steps:

Conduct disaster recovery test in 2022.

Update disaster recovery plan based on results of test.

Staff Response - ONGOING

Grayson is making good progress toward implementing this recommendation. For the next MAAP report, please provide a status update on the disaster recovery test, any lessons learned, and whether any policies or procedures were amended as a result.

RECOMMENDATION – V-R2

V-R2 Grayson should explore opportunities for shared purchasing and consolidations of processes with other Distribution Cooperatives. (Priority: Medium)

At a minimum, the following areas should be explored:

Purchasing, materials (all of the supply chain)

Information Technology

Training

Service Call outs using bordering Distribution Cooperatives

None of these opportunities require an actual merger to achieve savings. All can be cooperative arrangements. Also, there is no need for all sharing to be accomplished with any one entity.

Status Update:

Grayson continues to explore all opportunities to utilize shared services and processes with its fellow cooperatives as well as others. Challenges exist in sharing services as even though cooperative principles are similar, the processes in obtaining these goals vary greatly.

As supply chain issues increase, Grayson has worked in conjunction with our suppliers and cooperatives in the state to trade material as necessary to ensure jobs can be completed and reliability goals met.

A small group has been established who utilize and share ideas on utilization of our RF metering system. This group has assisted in troubleshooting problems and increasing utilization of the system.

One of the initial ideas since the development of the action plan, sharing a Professional Engineer, does not appear to be cost effective at this time. Total costs for contracting a PE to complete the necessary functions resulted in an expense of \$7,944.64 year to date in 2021 and \$10,555.75 in 2020. These costs are marginal compared to the expense of a full time PE salary and benefits.

Next Steps

Continue regular discussion and analyzation of any opportunities that are presented to share services or processes with other cooperatives or groups.

Staff Response - ONGOING

Grayson appears to be making progress toward implementing this recommendation. For the next MAAP report, please provide some examples of instances where the sharing of services with other cooperatives was not feasible. Regarding the shared services of an engineer PE, one concern was that the engineer's ultimate loyalty was to the engineering firm (generating business) as opposed to Grayson. Please confirm that no other cooperative was interested in sharing the cost of a professional engineer or an employee

with necessary IT skill sets per Recommendation V-R3. Also for the next MAAP report, please discuss the supply chain issues that Grayson and other cooperatives has encountered and the successes that Grayson has had in working with the other cooperatives in trading material and or services in order to complete jobs.

RECOMMENDATION – V-R3

V-R3 Grayson should explore alternative means of obtaining the necessary IT skill sets. (Priority: Medium)

Some alternatives might include:
Position sharing with another Cooperative.
Remote access
Outsourcing
See also consolidation recommendation

Status Update:

Grayson continues looking for opportunities to improve our information technologies. Netgain Technologies, our IT contractor, provides a yearly analysis that assists in planning the replacement and updating of servers, desktops, network equipment, software upgrades and support plans. Over the next two years, we will be upgrading our virtual server infrastructure due to both growth and age as well as replacing our network switches due to end-of-life.

We are currently working with our ISP Windstream to improve our internet bandwidth as well as reduce our monthly fees.

Next Steps:

Grayson will continue to work with Netgain to expand the coverage and assistance as needed, as well as look for other opportunities to reduce cost or expand coverage as necessary.

Grayson feels that this recommendation is complete, outside of a normal annual review of processes and procedures.

Staff Response – ONGOING

While Staff applauds Grayson's use of Netgain as its outside IT contractor and Netgain's provision of an annual IT analysis, it is not clear as to whether that is sufficient to satisfy the intent of this recommendation. For the next MAAP report, please provide a copy of Netgain's 2020 and 2021 annual analysis reports. Also, provide a status update on Grayson's progress in upgrading its virtual server infrastructure and network switches. Regarding the network switches, provide a breakout of the switches that will be replaced over the two year period and the estimates or realized capital cost. Finally, please clarify whether the virtual server upgrade and the replacement of the network switches were considered to fall into the reliability, safety and efficiency categories mentioned in the budget discussions previously.

RECOMMENDATION – V-R4

V-R4 Explore opportunities to improve or control costs in line operations. (Priority: High)

Grayson should explore opportunities to better manage costs in the line area including:

Reduced line crew sizes

Performing hot work with internal resources

Reducing overtime

Better balancing in-house and contractor use

None of these opportunities can be fully realized before the next negotiated contract with the line crew bargaining unit; however, data can be gathered, and analysis performed before that time. At a minimum:

Perform and document an informal survey of other East Kentucky Power Cooperative (EKPC) distribution cooperatives as to their policies regarding line crew size, hot work and overtime.

Research available studies on these same topics from industry sources such as NRECA, Touchtone, EKPC and others.

Status Update:

Since October 2020, the following has been completed to improve or control line operation costs:

Hot Work – Grayson crews have begun their training requirements in order to work lines hot. Initial costs for startup, which included the necessary safety equipment, totaled approximately \$30,000. As of October 11, all initial training has been completed, with the exception of our apprentice linemen. Construction crews are now able to work jobs hot.

Overtime Issues – Discussed in Recommendation V-R5. Overtime hours have increased in 2021 due to winter storms. However, by removing overtime hours contributed to the storms, cumulative hours have decreased for a 3rd consecutive year YTD. Additionally, costs due to overtime during the winter storms should reduce significantly as a percentage of expenses will potentially be reimbursed through FEMA.

Contractor Use – Due to the winter storm, contractor use at the cooperative increased significantly. A second contractor crew was retained for several weeks following the winter ice storms to assist in cleanup and small restoration projects. Costs associated with the additional use will likely be offset by FEMA reimbursement. Grayson has also continued to allow our contractor the ability to work storms offsite as needed. This has saved Grayson approximately \$82,736 to date.

Truck Use – Storm and Covid-19 protocols have not allowed significant reductions in truck use. Grayson will continue to work through this component and look for ways to mitigate any unnecessary truck use.

Material Management – A proactive approach was taken to supply chain issues that was presented to the cooperative. With likely twenty percent increases across the board on all material, our warehouseman and purchasing agent worked together to develop a list of key material that could be significantly affected by the cost increases and supply chain delays that could affect reliability issues. They were able to secure material in advance of the increases and continuously monitor warehouse supply to ensure material is on hand.

Next Steps

Continue to analyze the cost savings that can be utilized from actions above as well as any future actions.

Continue to meet periodically with team and management to discuss any additional issues that could be addressed

Staff Response - ONGOING

Grayson appears to be making good progress toward fulfilling the intent of this recommendation. In addition to the questions posed below, for the next MAAP report, please provide a status update on Grayson's continuing efforts to implement this recommendation. Regarding hot line work, for the next MAAP report, explain whether Grayson has calculated whether it is realizing any time or cost savings from not having to hire consultants. Regarding overtime, overtime due to severe storms is unavoidable. However, Staff acknowledges Grayson's efforts for its year over year reductions. Regarding contractor use, please explain what "allowing contractors to work storms off-site" means and how that generates savings.

RECOMMENDATION – V-R5

V-R5 Explore opportunities to reduce overtime. (Priority: Medium)

The current procedure which permits some overtime decisions to be made by the field crew itself is not within industry standards. While the rationale makes sense, a more focused control should be instituted. Proper planning can help to determine manpower needs and hours necessary to complete any assignment. Better planning regarding parts carried and bucket truck inventory can also help facilitate more efficient work.

Status Update:

Grayson has continued to implement the suggestions in the previous status update to assist in reducing overtime expenses. In addition, hot line work has begun by crew members, which has aided in the reduction of outages and can be correlated with a reduction in overtime as well.

Provided in Exhibit I, an updated chart showing the number of overtime hours for each month and year since 2018. The February and March winter ice storms was a detrimental disaster to our infrastructure, resulting in significant damage, outage, and overtime for restoration. 4,661 hours of overtime were contributed to the winter storms. 925 hours of overtime were a result of summer storms and damage likely sustained during the winter storms that had weakened infrastructure. (A correlation between a severe winter storms and increased summer outages and overtime appears to exist. In 2014 and 2015, when our last two severe winter storms hit our territory, overtime hours during the summer increased by over a 1,000 hours during the summer months each of those two years.)

However, if the storm hours are removed, overtime hours through September would account for 2,551 hours, a decrease for the third year in a row.

Next Steps

Continue to monitor overtime and expenses, acting accordingly if measures present themselves.

Staff Response – ONGOING

Staff notes that this recommendation is related to Recommendation V-R5. Grayson is progressing in its implementation efforts. For the next MAAP report, please provide an update on how many and approximate length of outages have been avoided by having Grayson's linemen do hot line work. Also, provide an estimate of the reduced overtime hours and the reduced costs in terms of reduced overtime and, if applicable, not having to hire outside contractors associated with this work.

RECOMMENDATION – VI-R1

VI-R1 Explore potential merger opportunities with both adjacent utilities and other nearby utilities should they arise. (Priority: Medium)

While mergers may be difficult, there have been successful Kentucky cooperative mergers in the recent past. Grayson, unless it merges, will continue to find it difficult to reduce costs significantly and expand operational flexibility by a significant degree. Therefore, Grayson is faced with a paradox: Even though a merger is unlikely, though not impossible, the achieved efficiencies and cost savings would be of value to both merging utilities' customers.

Grayson should pursue a two-part strategy. First, if no merger be possible, a plan should be developed that reviews all cost categories and determine if there is potential for combining processes with other cooperatives; then develop plans and action steps to actively pursue any opportunities for cost savings or operational enhancements through joint processes; and finally report the results to the Commission every 6 months.

Second, investigate opportunities for merger, including minimization of restraints. Explore a merger with another EKPC cooperative that is not contiguous. Determine whether the service territory can be split between two or more coops. Does the near term retirement of the Grayson's CEO provide a window for merger opportunities?

Status Update:

Please find attached documentation concerning Grayson's initial plan focusing on mergers and acquisitions (Exhibit J). Grayson fully understands that any merger or acquisition is much deeper involved than the plan appears. Grayson would rely on outside parties to assist in facilitating and providing the data and evaluations necessary for an informed decision to be made.

As with all decisions, Grayson's strategic plan and its mission, servicing our members and their communities Reliable-Safe-Efficient is at the forefront. Any merger would be focused on improving the membership and the opportunities to provide reliable, safe, and efficient power. Dedicating the evaluation process to these ideas would ensure that any decision made would be of benefit to the cooperative and its' membership.

Next Steps

Continue to monitor for opportunities that would be beneficial for Grayson and a subsequent utility in a merger or shared services.

Response – ONGOING

Staff acknowledges that Grayson has a general set of merger implementation steps and topics for further focused analysis and is monitoring other cooperatives. For the next MAAP report, please provide a status update on Grayson's progress.

Liberty Consulting Group Recommendations

Recommendation No. LR-1

LR-1 Conduct trial retention of an arborist to assist with the vegetation management program.

Status Update:

Grayson was approached by Owen Electric and offered the services of their Right of Way Manager, Tom Nelke, as a consultant to assist in our recommendation. Tom and his colleague made a visit to Grayson and discussed their program while listening and asking questions concerning our vegetation management program. He was also given a tour of terrain, focusing on some of our worst performing and trouble circuits.

From his visits and communication back and forth with Grayson's Assistant Manager of Operations, Tom submitted a list of recommendations to consider, consisting of:

Evaluate feasibility of adding a mechanical off road crew

Consider utilizing a low volume spray contractor

Patrol outside the ROW

Be proactive on Ash trees

Earmark money for trouble feeders

A copy of his letter has been included as Exhibit K.

Based on Tom's recommendations, Grayson selected a low impact sprayer crew to spray circuits, starting with those that had the highest percentage of outages. Results have been favorable to this point. The spray crew has been able to cover over 462 miles at a cost of just under 200 thousand dollars, compared to the 120 miles at 220 thousand dollars from the previous contractor.

Also, at the end of July, a tree cutting crew was assigned to focus on off Right-of-way trees. This crew was assigned to start on the circuits with the largest number of outages due to off right- of-way trees. To date, they have completed four circuits and nearing completion of a fifth, with 384 trouble trees cut.

Next Steps:

Continue to correspond with Tom for feedback and suggestions on improvements.
Continue with low volume spray crew.

Continue with off right-of-way tree crew to focus on circuits with potential large issues.
Study feasibility of adding a mechanical off road crew.

Retain budget to ensure goals mentioned are met and right-of-way program does not step back.

Study effects of program based on changes in outages and reliability on circuits addressed by program.

Staff Response - ONGOING

Staff notes that the sharing of personnel with Owen Electric is related to the implementation of recommendations VI-R1, V-R2 and budget related recommendations. Grayson appears to be making very good progress toward implementing the intent of this recommendation. The periodic use of Owen Electric's ROW manager, Mr. Tom Nelke, and implementing his suggestions is yielding positive results both in terms of cost effectiveness and in the number of circuit miles treated and cleared. For the next MAAP report, please provide an update on Grayson's continued implementation of Mr. Nelke's suggestions and any additional comments or suggestions he might have upon his return examination of Grayson's circuit ROWs.

Recommendation No. LR-2

LR-2 Increase vegetation management activities sufficiently to meet the requirements of the eight-year cycle and implement an off-ROW hazard tree removal program.

Status Update:

Due to the small sample size from changes made in Recommendation LR-1 to date, evaluating the effectiveness and costs for budget purposes is limited. As the program continues, a better idea of the cost and effectiveness of changes in the program will be realized.

While studies and changes are implemented, proposed right of way budgets will remain consistent with previous year funding.

Next Steps:

Continue with implementation with implementation steps listed, focusing on feedback from Recommendation 1 and ensuring expenses are budgeted for successful program

Staff Response – ONGOING

Grayson should continue its work implementing this recommendation. For the next MAAP report, please provide a status update.

Recommendation No. LR-3

LR-3 Increase the use of “hot-line” work by internal lineworkers to reduce outages taken to perform maintenance activities.

Status Update:

In March of 2021, Grayson purchased the necessary safety equipment to begin completing hot-line work. This equipment included: blankets, line hoses, hot hoists, pole wraps, mechanical jumpers and phasing sticks, at a cost of approximately \$30,000.

A safety plan was developed to ensure that all linemen would be safely certified in working lines hot. This plan included:

Safety Presentation completed by Kentucky Electric Cooperatives Safety Training Day on cooperative grounds

100 hours of supervised hot work

Continued education and safety programs on best practices

On April 29, 2021, Grayson linemen began hot work training program. Those exempted were those that had already met the set requirements through previous employment.

As of October 11, 2021, Grayson has 11 men certified for hot-line work. 84 jobs have been completed, reducing outages by 236 hours.

Next Steps:

Continue training program until all linemen have completed and are eligible for hot-line work.

Continuous education and safe practice discussions to ensure a commitment to safety for employees and members.

Staff Response -

This recommendation is related to recommendation V-R4. For the next MAAP report, please provide a status update.

Recommendation No. LR-4

LR-4 Provide a structured program for conducting and documenting work activities addressing work on the previous year's worst performing circuits, including follow up inspections and corrective maintenance conducted, and estimated or actual reliability improvements.

Status Update:

Please find below a summary of the worst reported circuits from 2020.

CAIDI			
Feeder	2020	2021	% Change
Airport Road 1	127.28	578.15	354.23%
Argentum 2	115.11	184.06	59.90%
Argentum 3	79.05	82.5	4.36%
Carter 4	88.24	169.25	91.81%
Elliottville 4	195.01	133.86	-31.36%
Leon 1	113.87	149.87	31.61%
Leon 2	203.68	269.16	32.15%
Leon 3	192.07	355.1	84.88%
Low Gap 3	92.26	172.23	86.68%
Mazie 1	145.13	120.39	-17.05%
Pelfrey 1	253.02	148.28	-41.40%
Pelfrey 2	151	109.04	-27.79%
SMFLD LINE 3	132	0	-100.00%
Warnock 2	82.82	86.87	4.89%

SAIDI			
Feeder	2020	2021	% Change
Airport Road 1	435.05	1837.13	322.28%
Argentum 2	490.22	527.1	7.52%
Argentum 3	208.22	86.07	-58.66%
Carter 4	168.43	203.8	21.00%
Elliottville 4	280.21	197.25	-29.61%
Leon 1	268.04	143.52	-46.46%
Leon 2	834.04	554.91	-33.47%
Leon 3	681.5	156.22	-77.08%
Low Gap 3	361.18	284.88	-21.13%
Mazie 1	610.09	262.96	-56.90%
Pelfrey 1	825.3	207.7	-74.83%
Pelfrey 2	651.56	156.9	-75.92%
SMFLD LINE 3	44	0	-100.00%
Warnock 2	262.37	346.31	31.99%

SAIFI			
Feeder	2020	2021	% Change
Airport Road 1	3.42	3.18	-7.02%
Argentum 2	4.26	2.86	-32.86%
Argentum 3	2.63	1.04	-60.46%
Carter 4	1.91	1.2	-37.17%
Elliottville 4	1.44	1.47	2.08%
Leon 1	2.35	0.96	-59.15%
Leon 2	4.09	2.06	-49.63%
Leon 3	3.55	0.44	-87.61%
Low Gap 3	3.91	1.65	-57.80%
Mazie 1	4.2	2.18	-48.10%
Pelfrey 1	3.26	1.4	-57.06%
Pelfrey 2	4.32	1.44	-66.67%
SMFLD LINE 3	0.33	0	-100.00%
Warnock 2	3.17	3.99	25.87%

PM/CM Completed

Animal Guards: Installed in areas where animal outages have caused significant reliability issues

Off - ROW Trees: Targeting areas where off right-of-way trees has caused significant reliability issues. One crew has been assigned to focus on these feeders.

Next Steps

Monitor cause codes in these areas to address issues

Complete documentation during Annual Reliability Report discussing worst performing circuits from previous years.

Response – ONGOING

This recommendation is closely related to Recommendations II-R3 and LR-1. For the next MAAP report, please provide a status update and a copy of the Annual Reliability Report. In addition, explain the meaning of PM and CM. In addition, it would be informative to provide the reliability indices both with and without storm information. Severe weather is completely beyond Grayson’s control and providing reliability information without storm outage data will provide a more accurate picture of Grayson’s progress.

Recommendation No. LR-5

LR-5 Conduct a structured annual training program for properly identifying outages and require reporting intended to reduce “unknown” as the cause of outages.

Status Update:

Similar to recommendation II-R3 in Management Audit.

Grayson continues education on the importance of identifying likely causes on all outages. A detailed discussion takes place during a safety meeting as well as constant reminders from Manager of Operations during morning safety discussions.

Response - ONGOING

Staff agrees that this recommendation is related to Recommendation II-R3. For the next MAAP report, please provide a status update.

Recommendation No. LR-6

LR-6 Evaluate and take actions to optimize lineworker overtime levels, considering the need to support maintenance of reliability performance.

Status Update:

A model was developed to incorporate key data points related to overtime and outages, with data input from our Operations Division Assistant. Data points in the model included: Substation, Feeder, County, # employees, overtime hours, cause code, and description. From this data, we are able to scrutinize the number of overtime hours on specific outages, on causes of outages, as well as by employee.

The data also allowed us to utilize our mapping system in plotting the data and creating overlays that could show us potential problems in areas or equipment that could be addressed by corrective and/or preventive maintenance. For example, all outages caused by animals have been mapped, and from that, additional animal guards have been installed in surrounding areas of high concentration to prevent future outages. As shown in the status update overview, Grayson has been able to significantly reduce its overtime hours as well as its percentage of overtime hours worked compared to total hours.

Next Steps:

Grayson will continue to utilize the model to assist in overtime and outage analysis. Expand on usage of data and mapping system to address future issues that could be solved through preventive and corrective maintenance.

Response – ONGOING

Grayson's creative modeling solution to implement this recommendation appears to be meeting with success. The reduction in outages and overtime should have a positive impact on Grayson's budget. For the next MAAP report, please provide a status update.

Recommendation No. LR-7

LR-7 Engage, initially on a trial basis, a professional ground-line pole testing and treating contractor.

Status Update:

Grayson solicited bids in May for pole testing and treating. Halbert pole testing, Utility Asset Management, and Osmose responded with quotes. Utility Asset Management was selected with the most economical bid. Grayson spoke with their point of contact at UAM and scheduled the first week in October to start the program at Carter City Circuit 2. We received a call in September from the President of UAM asking to move the date out to the last week of November or first week of December due to manpower shortages. The first circuit is estimated to take approximately two weeks to completed, allowing for completion by the end of the year. UAM has agreed to approximate the age of poles that are identified as unknown during their testing progress.

Next Steps

Upon completion of circuit, job schedules can be developed to ensure the replacement of necessary poles on the Carter City Circuit 2.

Selection of additional circuits to continue with program, focusing on circuits with significant unknown age poles and worst performing circuits.

Response - ONGOING

Grayson is making progress with this recommendation. For the next MAAP report, please provide a status update

Recommendation No. LR-8

LR-8 Investigate the ages of poles with unknown ages.

Status Update:

UAW, through their contract, will assist in determining the age of the poles that are unknown on the circuits they are working on. If an age can be determine, UAW will determine if the pole should be tested or not. If an age cannot be determined, the pole will be tested and treated as necessary.

Response – ONGOING

This recommendation is related to Recommendation LR-7. For the next MAAP report, please provide a status update. Also, presumably, the line crews will examine the poles they are working on or in close proximity. Explain how these poles will be made known to UAM for future testing. For example, will the pole locations be identified in Grayson's GIS mapping system? Explain whether in addition to pole locations in the GIS mapping system, pole ages are listed also. Explain whether UAM explain whether UAM will be assigned to test pole circuit by circuit or move around the system as poles are identified.

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