

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 two management audits of Grayson Rural Electric Cooperative Corporation (Grayson RECC), one auditing Grayson RECC's financial and managerial condition and a second auditing Grayson RECC's operational condition, that were consolidated in this case. Based upon the case record, and for the reasons discussed below, the Commission finds that Grayson RECC complied with audit recommendations, is relieved of the requirement to file status reports updating the progress made toward the audit recommendations, and this case should be closed.

LEGAL STANDARD

KRS 278.255 authorizes the Commission to conduct management and operation audits of jurisdictional utilities to investigate management effectiveness and operating efficiency, or any in any other internal workings of the utility. KRS 278.255(3) states that an audit may be performed by the Commission Staff or by a competent, qualified, and independent firm. KRS 278.255(3) further states that, when the Commission orders an audit to be performed by an independent firm, the Commission selects the audit firm and that the audit firm performs the audit for and under the direction of the Commission, with the cost to be borne by the utility. Finally, KRS 278.255(3) provides that the Commission

shall include the cost of conducting any audits required in this section in the cost of service of the utility for ratemaking purposes.

PROCEDURAL BACKGROUND

As noted above, Grayson RECC is subject to two management audits, one of which was established in Case No. 2019-00101¹ and was subsequently consolidated in this case. Because of concerning financial and managerial practices identified in Grayson RECC's 2018 rate case, Case No. 2018-00272,² the Commission initiated a financial and managerial audit of Grayson RECC. Vantage Energy Consulting was selected to perform the audit. Vantage Energy Consulting issued a report with 20 recommendations based upon data requests, interviews, and on-site visits. Grayson RECC was required to file periodic updates of the status of its progress towards carrying out the recommendations. For administrative efficiency, Case No. 2019-00101 was consolidated into this proceeding on January 21, 2021.

This proceeding was established on March 6, 2020, to address operational issues that were outside the scope of the financial and managerial audit. Liberty Consulting Group was selected to perform the operational audit. Liberty Consulting Group issued a report with eight recommendations based upon data requests, interviews, and on-site visits.

Grayson RECC continues to file periodic status reports updating its progress towards carrying out the recommendations.

¹ Case No. 2019-00101, *Electronic Investigation Into the Management and Operation of Grayson Rural Electric Cooperative Corporation* (Ky. PSC Mar. 28, 2019).

² Case No. 2018-00272, *Application of Grayson Rural Electric Cooperative Corporation for an Adjustment of Rates* (Ky. PSC Mar. 28, 2019).

DISCUSSION AND FINDINGS

As discussed below, the Commission concludes that Grayson RECC made substantial progress towards carrying out the 20 recommendations in the financial and management audit report, and eight recommendations in the operational audit report to warrant a finding that the recommendations have been carried out and Grayson RECC should be relieved from filing status reports on the 28 total recommendations. Because two remaining actions for financial and managerial audit recommendations are related to union contract negotiations that begin in 2023, the Commission further finds that Grayson RECC should file a post-case informational report after union contract negotiations are completed regarding its salary and wage study and insurance benefit study.

Financial and Managerial Audit

Below are the 20 financial and managerial audit recommendations, status of Grayson RECC's actions, and Commission findings.

- **Recommendation II-R1: Develop or purchase a financial model that provides detailed and actionable information on Grayson RECC's financial picture**

Grayson RECC implemented a financial model provided by National Rural Utilities Cooperative Finance Corporation (CFC) and uses a ten-year financial forecast on an annual basis to facilitate board and management discussion and operational decisions. Grayson RECC requested that the Commission deem this recommendation complete, with the understanding that models and tools are reviewed and updated as needed.

The Commission finds that this recommendation should be deemed completed and Grayson RECC should be relieved from continuing to provide a status report for this recommendation. This is because in addition to developing a financial model for a ten-year forecast, Grayson RECC documented how it utilizes the financial reports on a

monthly basis at board meetings and annually, and how it addresses variances and corrective actions.

- **Recommendation II-R2: Identify a regulatory liaison and communicate to the Commission**

Grayson RECC designated its general manager as the single point of communication between the Commission and Grayson RECC, with the general manager representing the utility's board members, executive staff, and employees.

The Commission finds that this recommendation should be deemed completed and Grayson RECC should be relieved from continuing to provide a status report for this recommendation. This is because Grayson RECC designated its general manager, Bradley Cherry, as a single point of communication with the Commission. The Commission notes that, shortly after the financial and managerial audit was initiated, the then-general manager resigned and Grayson RECC selected Mr. Cherry as general manager. Mr. Cherry continues to serve as general manager and as the single point of communication.

- **Recommendation II-R3: Improve process for evaluating and determining causes of outages**

Grayson RECC noted that the geography in its service area is heavily forested, mountainous terrain that presents unique challenges, especially regarding outages caused by small animals. To address the issue, Grayson RECC increased the number of animal guards and increased right of way (ROW) cutting. Grayson RECC also emphasized to its employees the need to conduct a thorough investigation of the outage cause and to code outages appropriately. Grayson RECC stated that it anticipated that

the number of maintenance outages would be decreased through hot-line work.³ Grayson RECC noted that this recommendation is like a recommendation in the operational audit recommendation regarding hot-line work and ROW vegetation management.

Based upon Grayson RECC documenting the actions taken regarding this recommendation, the Commission finds that this recommendation should be deemed completed and Grayson RECC should be relieved from continuing to provide a status report for this recommendation. Because of the impact on Grayson RECC's statutory obligation under KRS 278.030 to provide adequate, efficient and reasonable electric service, the Commission expects Grayson RECC will continue to conduct daily monitoring of outages and outage causation.

- **Recommendation II-R4: Develop a formal procedure for the tracking and resolution of complaints**

Grayson RECC implemented a formal procedure to register and track complaints and resolutions.

The Commission finds that this recommendation should be deemed completed and Grayson RECC should be relieved from continuing to provide a status report for this recommendation because Grayson RECC provided evidence that a formal procedure to track and resolve complaints was implemented and continues to be utilized.

³ Hot-line work is conducted using hot-line tools that are designed to allow electric lineworkers to perform maintenance on high voltage power lines while the lines are energized.

- **Recommendation II-R5: As the opportunities arise, Grayson RECC should strive to include more diversity on its Board**

Grayson RECC's board is elected, and, through a board opening, Grayson RECC appointed a woman to the board, which until then was made up entirely of males. Grayson RECC took steps to achieve greater diversity, including exploring creating member advisory groups. After surveying other electric cooperatives, Grayson RECC determined to pursue greater diversity through increased communication with members using social media and the monthly magazine Kentucky Living to encourage greater interest by members, including greater interest in serving on the utility's board.

The Commission finds that this recommendation should be deemed completed and Grayson RECC should be relieved from continuing to provide a status report for this recommendation. Because board members are elected, Grayson RECC does not have sole control of its board makeup. Grayson RECC provided evidence that it took affirmative steps to communicate with members to raise awareness of the board and how members can participate, with the end goal of obtaining greater diversity.

- **Recommendation II-R6: Create a more transparent process of governance**

Grayson RECC identified communication mediums that its members prefer and increased communication with members using those mediums, which include Kentucky Living monthly magazine, bill inserts, and social media. As one example of its actions to promote transparent governance, Grayson RECC board minutes are published in Kentucky Living magazine and on social media.

The Commission finds that this recommendation should be deemed completed and Grayson RECC should be relieved from continuing to provide a status report for this recommendation. This is because Grayson RECC provided evidence of the affirmative

steps it took to communicate to members using sources that members indicated they prefer.

- **Recommendation II-R7: Directors' fees and expenses should be carefully monitored and managed jointly by both the Board and Grayson RECC management**

Grayson RECC took steps including reducing the number of board members from seven to six, conducting a survey of board member compensation as compared to national rural electric coops, and conducting annual review of board member compensation policies and expenses.

The Commission finds that this recommendation should be deemed completed and Grayson RECC should be relieved from continuing to provide a status report for this recommendation. This is because Grayson RECC provided evidence that it took affirmative steps to address board member expenses, including conducting annual review of policies and expenses.

- **Recommendation II-R8: Increase involvement by the Board in the strategic planning process with a focus on actions that have an impact on time-interest-earned ration (TIER)**

Grayson RECC implemented long range capital and operations plans addressing technology and general plant, a safety improvement plan, and adopted best practice documentation created by an electric cooperative statewide association to promote safe work environment. Grayson RECC explained that it utilizes these plans in establishing strategic goals and planning and operations, with annual and monthly discussions.

The Commission finds that this recommendation should be deemed completed and Grayson RECC should be relieved from continuing to provide a status report for this

recommendation. This is because Grayson RECC provided evidence that it took affirmative steps to implement and utilize strategic planning processes.

- **Recommendation II-R9: The Board of Directors should take the lead in meaningful cost savings measures, to assure Grayson RECC's members have affordable electricity now and, in the future**

Grayson RECC implemented enhanced budget and financial processes for its board meetings, discussing TIER and OTIER at each board meeting. Additionally, Grayson RECC monitoring the impact of high interest rates, higher energy costs, and consumer conservation on its financial position.

The Commission finds that this recommendation should be deemed completed and Grayson RECC should be relieved from continuing to provide a status report for this recommendation. This is because Grayson RECC provided evidence that it took affirmative steps to implement and utilize budget and financial planning processes. The Commission expects Grayson RECC be encouraged to continue to explore meaningful cost saving measures, which will be reviewed in any future rate case filed by Grayson RECC.

- **Recommendation III-R1: Initiate a new strategic plan that includes re-defining Grayson RECC's primary mission "To Maintain a TIER of 1.25 or Greater" along with other key operational targets**

Grayson RECC implemented categorization and ranking of budgetary priorities in conjunction with developing a strategic planning process.

The Commission finds that this recommendation should be deemed completed and Grayson RECC should be relieved from continuing to provide a status report for this recommendation. This is because Grayson RECC provided evidence that it took affirmative steps to implement and utilize strategic planning processes.

- **Recommendation III-R2: Review the TIER status report and certify that Grayson RECC's TIER will equal or exceed 1.25 at each monthly board meeting for the following 12-month period**

Grayson RECC implemented enhanced budget and financial process for its board meetings with TIER discussions occurring at each monthly meeting. These discussions include expected and actual TIER on a monthly basis and projections for year-end TIER.

The Commission finds that this recommendation should be deemed completed and Grayson RECC is relieved from continuing to provide a status report for this recommendation. This is because Grayson RECC provided evidence that it took affirmative steps to implement and utilize budget and financial planning processes to satisfy this recommendation.

- **Recommendation IV-R1: Establish an annual process to determine appropriate pay increases for non-union employees that is equitable, defensible, and transparent**

Grayson RECC stated that it tabled a planned wage and salary plan from 2022 to 2023 because it would conduct union negotiations in 2023, and the wage and salary plan would be impacted by the union contract. Grayson RECC also stated that it plans to request a proposed matrix for future wage adjustments as part of the wage and salary plan.

The Commission finds that this recommendation should be deemed completed and Grayson RECC should be relieved from continuing to provide a status report for this recommendation. The Commission further finds that Grayson RECC must file as a post-case filing an update on the union negotiations regarding compensation and benefits once the negotiations have concluded, and the wage and salary plan once completed.

- **Recommendation IV-R2: Accelerate and amplify Grayson RECC's plan for employee contributions for health care**

Grayson RECC increased its employee contribution for health insurance from 9 percent to 12 percent during the pendency of this case. Grayson RECC conducted a review of its insurance benefits in 2022, eventually concluding that it has the most cost-effective plan. As part of that analysis, Grayson RECC concluded that it could not offer additional dental and vision insurance coverage without increasing costs, and thus decided not to expand the insurance offering. Grayson RECC explained that it intends to conduct another insurance benefit analysis in conjunction with union negotiations in 2023.

The Commission finds that this recommendation should be deemed completed and Grayson RECC should be relieved from continuing to provide a status report for this recommendation. This is because Grayson RECC provided evidence that it took affirmative steps to review insurance costs and has increased the employee contribution to insurance expense. The Commission notes that Grayson RECC's continued compliance with this recommendation can be investigated in future rate cases.

- **Recommendation: IV-R3 Develop an appropriate path to reduce the ongoing pension and post-retirement healthcare liabilities**

Grayson RECC increased the employee contribution to post-retirement health insurance from 6 percent to 12 percent since 2020. Grayson RECC stated that it will include insurance coverage, percentage contributions, and requirements to qualify for coverage in the union contract negotiations.

The Commission finds that this recommendation should be deemed completed and Grayson RECC should be relieved from continuing to provide a status report for this recommendation. This is because Grayson RECC provided evidence that it took

affirmative steps to reduce this expense through an increase in the employee contribution percentage, and will include the issues of employee contribution, the cost effectiveness of its health insurance plans, and requirements for coverage in upcoming contract negotiations. The Commission notes that Grayson RECC's continued compliance with this recommendation can be investigated in future rate cases.

- **Recommendation V-R1: Grayson RECC should establish a Disaster Recovery location**

Grayson RECC implemented disaster recovery plans and processes with the assistance of a third-party information technology consultant. Grayson RECC developed a plan and budget for off-site restoration, which will be implemented in 2023-2024.

The Commission finds that this recommendation should be deemed completed and Grayson RECC should be relieved from continuing to provide a status report for this recommendation. This is because Grayson RECC provided evidence that it took affirmative steps to develop and implement a disaster recovery plan.

- **Recommendation V-R2: Grayson RECC should explore opportunities for shared purchasing and consolidations of processes with other Distribution Cooperatives**

Grayson RECC highlighted steps it took regarding purchasing efficiencies, such as ordering some materials in advance to mitigate supply chain issues, assisting other coops by with key equipment that failed when Grayson RECC has spare parts, working with contractors to borrow items that can be borrowed, and repurposing retired equipment. Grayson RECC explained that cooperatives utilize a supply entity management by the statewide cooperative association for material and transformer needs.

The Commission finds that this recommendation should be deemed completed and Grayson RECC should be relieved from continuing to provide a status report for this recommendation. The Commission notes that this recommendation is dependent upon factors outside of Grayson RECC's control regarding other coops' willingness to join in shared purchasing and processes. The Commission further notes that Grayson RECC took actions that are in the utility's control to address this recommendation.

- **Recommendation V-R3: Grayson RECC should explore alternative means of obtaining the necessary IT skill sets**

Grayson RECC documented that it is working with a third-party information technology consultant and has upgraded the utility's technology infrastructure, with replacement of network switches budgeted for 2023. Grayson RECC engaged another information technology consultant to review the utility's system as whole and make recommendations for improved security and performance.

The Commission finds that this recommendation should be deemed completed and Grayson RECC should be relieved from continuing to provide a status report for this recommendation. This is because Grayson RECC provided evidence that it engaged two information technology consultants to evaluate different technology components consistent with the recommendation.

- **Recommendation V-R4: Explore opportunities to improve or control costs in line operations**

Grayson RECC noted that this recommendation is based on similar issues raised in the operational audit regarding crew size, performing hot work with internal resources, reducing overtime, and balancing in-house and contractor work.

The Commission finds that this recommendation should be deemed completed and Grayson RECC should be relieved from continuing to provide a status report for this recommendation for reasons set forth in the discussion of Grayson RECC's compliance with the recommendations in the operational audit.

- **Recommendation: V-R5 Explore opportunities to reduce overtime**

Grayson RECC noted that this recommendation is based on similar issues raised in the operational audit regarding crew size, reducing overtime, and balancing in-house and contractor work.

The Commission finds that this recommendation should be deemed completed and Grayson RECC should be relieved from continuing to provide a status report for this recommendation for reasons set forth in the discussion of Grayson RECC's compliance with the recommendations in the operational audit.

- **Recommendation VI-R1: Explore potential merger opportunities with both adjacent utilities and other nearby utilities should they arise**

Grayson RECC stated that it is pursuing shared services in critical areas but has not inquired or received merger offers during the pendency of this case.

The Commission notes that this recommendation arose from the Commission's concern regarding the financial and managerial issues identified in the 2018 rate case. With the findings regarding Grayson RECC's implementation of financial and managerial audit recommendations in this Order, the Commission finds that this recommendation should be deemed completed and Grayson RECC should be relieved from continuing to provide a status report for this recommendation.

Operational Audit

Below are the eight operational audit recommendations, status of Grayson RECC's actions, and Commission findings.

- **Recommendation No. 1: Conduct trial retention of an arborist to assist with the vegetation management program**

Grayson RECC engaged Owen Electric's ROW manager, Tom Nelke, as a consultant and implemented Mr. Nelke's recommendations for improving Grayson RECC's vegetation management program. Grayson RECC continues to work with Mr. Nelke on this recommendation.

The Commission finds that this recommendation should be deemed completed and Grayson RECC should be relieved from continuing to provide a status report for this recommendation. This is because Grayson RECC provided evidence that it engaged an arborist in compliance with the recommendation.

- **Recommendation No. 2: Increase vegetation management activities sufficiently to meet the requirements of the eight-year cycle and implement an off-ROW hazard tree removal program**

Grayson RECC stated that it increased vegetation management productivity and efficiency through its work with Tom Nelke while Grayson RECC's vegetation management budget has remained constant. Grayson RECC further stated that the low spraying program it implemented resulted in a 50 percent increase in the number of miles that can be sprayed. Due to increased efficiency, Grayson RECC transitioned one crew to work on off-right of way tree removal, removing 932 danger trees to date, which has reduced the outage risk.

The Commission finds that this recommendation should be deemed completed and Grayson RECC should be relieved from continuing to provide a status report for this

recommendation. Grayson RECC provided evidence that it took affirmative steps to maximize its vegetation management program by implementing the recommendations in the operational audit.

- **Recommendation No. 3: Increase the use of “hot-line” work by internal lineworkers to reduce outages taken to perform maintenance activities**

Grayson RECC reported that all lineworkers completed hot-line training and can perform hot-line work. Through October 2022, Grayson RECC completed 61 jobs using hot-line work for a total of 220 hours, thus reducing the outage time. Grayson RECC stated that it holds periodic safety meetings and discussions to review safe policies for hot-line work and to address employee concerns.

The Commission finds that this recommendation should be deemed completed and Grayson RECC should be relieved from continuing to provide a status report for this recommendation. This is because Grayson RECC provided evidence that all lineworkers have completed hot-line training and are conducting hot-line work.

- **Recommendation No. 4: Provide a structured program for conducting and documenting work activities addressing the previous year’s worst performing circuit work, including follow up inspections and corrective maintenance conducted, and estimated or actual reliability improvements**

Grayson RECC provided evidence of the program and reporting developed in compliance with this recommendation that reflects improvements in reliability measurements from 2020 to 2022, which include system average interruption duration index (SAIDI), system average interruption frequency index (SAIFI), and customer average interruption duration index (CAIDI). Grayson RECC also identified preventative maintenance and corrective maintenance completed events, including animal guards,

targeting off-right of way trees, equipment replacement in areas where outages have been prevalent, and advanced metering infrastructure system monitoring.

The Commission finds that this recommendation should be deemed completed and Grayson RECC should be relieved from continuing to provide a status report for this recommendation. This is because Grayson RECC provided evidence of the affirmative steps it took to implement this recommendation.

- **Recommendation No. 5: Conduct a structured annual training program for properly identifying outages and require reporting intended to reduce “unknown” as the cause of outages**

Grayson RECC acknowledged that documenting outage causes is an important part of ensuring and improving reliable service. Grayson RECC developed outage identification training sessions in conjunction with its safety program regarding the importance of proper outage cause documentation. Unknown outages dropped from 162 in 2018 to 23 in 2020, when the training sessions first occurred. Grayson RECC noted that unknown outages increased in early 2022 and that after conducting additional training, the number of unknown outages decreased.

The Commission finds that this recommendation should be deemed completed and Grayson RECC should be relieved from continuing to provide a status report for this recommendation. This is because Grayson RECC provided evidence of the affirmative steps it took to implement this recommendation.

- **Recommendation No. 6: Evaluate and take actions to optimize lineworker overtime levels, considering the need to support maintenance of reliability performance**

Grayson RECC developed a model to analyze overtime and make necessary improvements to line operations. Grayson RECC stated that the model was further

refined based upon input from the field staff who incur overtime. Grayson RECC provided a chart of overtime hours worked between 2014 and 2022, with overtime reduced from 6,769 hours in 2014 to 4,823 hours in 2022. Grayson RECC noted that, due to severe summer storms, overtime increased in 2021 to address significant outages that resulted from the storm.

The Commission finds that this recommendation should be deemed completed and Grayson RECC should be relieved from continuing to provide a status report for this recommendation. This is because Grayson RECC provided evidence of the affirmative steps it took to implement this recommendation.

- **Recommendation No. 7: Engage, initially on a trial basis, a professional ground-line pole testing and treating contractor**

Grayson RECC issued a request for bids and engaged a third-party pole testing and treating contractor, Utility Asset Management (UAM) in the Spring of 2021. UAM tested 2,527 poles through Fall 2022. UAM tests entire circuits, which reduces costs by limiting the amount of time and distance traveled. Additionally, UAM is dispatched to test when trouble areas are detected. UAM continues to test circuits identified by Grayson RECC as those with significant unknown age poles and the worst performing circuits with history of elevated pole changes.

The Commission finds that this recommendation should be deemed completed and Grayson RECC should be relieved from continuing to provide a status report for this recommendation. This is because Grayson RECC provided evidence of the affirmative steps it took to implement this recommendation.

- **Recommendation No. 8: Investigate the ages of poles with unknown ages**

As discussed in Recommendation No. 7, Grayson RECC engaged UAM as a pole testing and treating contractor. UAM determines the age of poles with an unknown age as part of the circuit-by-circuit pole testing and treating process.

The Commission finds that this recommendation should be deemed completed and Grayson RECC should be relieved from continuing to provide a status report for this recommendation. This is because Grayson RECC provided evidence of the affirmative steps it took to implement this recommendation

IT IS THEREFORE ORDERED that:

1. Grayson RECC is relieved of the requirement to file periodic status update reports.
2. Within 30 days of executing a new union contract, Grayson RECC shall file the following in the post-case correspondence file and shall reference this case number:
 - a. Status of the salary and wage study.
 - b. Status of Insurance benefit study.
3. Within 30 days of completing the salary and wage study, Grayson RECC shall file a copy of the study in the post-case correspondence file and shall reference this case number.
4. Within 30 days of completing the insurance benefit study, Grayson RECC shall file a copy of the study in the post-case correspondence file and shall reference this case number.
5. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ENTERED
JUN 13 2023
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KENTUCKY PUBLIC
SERVICE COMMISSION

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