Matthew G. Bevin
Governor

Charles G. Snavely
Secretary
Energy and Environment Cabinet

Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

Michael J. Schmitt
Chairman

Robert Cicero
Vice Chairman

Talina R. Mathews
Commissioner

NEWS RELEASE

Contact: Andrew Melnykovych
502-782-2564 or 502-564-3940
502-330-5981 (cell)
Andrew.Melnykovych@ky.gov

PSC Grants Rate Increase to Grayson RECC

But commission criticizes coop's leadership; orders management audit

FRANKFORT, Ky. (Mar. 28, 2019) – The Kentucky Public Service Commission (PSC) has granted a rate increase to Grayson Rural Electric Cooperative Corp. (RECC) and has ordered the utility to undergo a comprehensive audit of its management practices.

In orders issued today, the PSC said Grayson RECC's top leadership had effectively ignored a 2013 directive, issued in its last rate case, to improve its finances and operations.

That inaction by Grayson RECC, and other issues which emerged during the current rate case, are "evidence of gross mismanagement," the PSC said in ordering the management audit. The audit will scrutinize all aspects of the utility's management, including the role of its board of directors, and consider whether Grayson RECC should merge with another electric utility.

The PSC said in the rate case order that it is unclear whether Grayson RECC is suffering from poor management or an "inability to make the necessary systemic changes," or whether the utility has made "a calculated decision to disregard" the earlier PSC order. Whatever the case, the "clear management deficiencies" have created financial difficulties that impose a burden on Grayson RECC's ratepayers.

Grayson RECC sought the latest rate increase in September 2018, saying it no longer has revenue adequate to cover its increasing operating costs while meeting the requirements of its lenders. The requested increase would have increased an average residential customer's monthly bill by $7.98 (from $128.31 to $135.57), or about 5.7 percent.

Grayson RECC subsequently revised their proposed increase several times - to correct errors and bring the calculations into conformity with PSC precedents - to a figure that would have increased the average residential customer bill by 6.2 percent.

The revised increase would have come by increasing the monthly customer charge from $15 to $22.50, while slightly increasing the cost per kilowatt-hour (kWh) of consumption. (A kWh is the amount of electricity needed to power a 100-watt light bulb for 10 hours.)

In today's rate case order, the PSC granted a slightly smaller increase than Grayson RECC's final request. The PSC set the new monthly residential customer charge at $21.25 and increased the per-kWH charge by less than one-tenth of a cent from the present level. The net result is an average increase for residential customers of about 6.09 percent.

-more-

Grayson RECC serves about 14,150 customers in Carter, Elliott, Greenup, Lawrence, Lewis and Rowan counties in eastern Kentucky. It is one of 16 electric distribution cooperatives that purchase power from and jointly own the East Kentucky Power Cooperative.

In the utility's previous rate case, the PSC ordered Grayson RECC to address management and financial planning decisions that had led to its poor financial condition.

In today's rate case order, the PSC said that "Grayson RECC has offered no evidence" that it addressed any of the issues raised in the 2013 proceeding. The utility did not attempt to bring personnel costs under control, nor did it curb fees and expenses paid to its board of directors, the PSC said.

Today's order discusses a number of management practices and decisions, several of which led to the PSC disallowing certain expenses. They include:

- Entering into a contract to pay for the full lifetime cost of health insurance for the utility's former outside attorney and his wife.
- Paying the health insurance costs of the attorney for the union that represents some of Grayson RECC's employees.
- Paying 100 percent of health insurance premiums for Grayson RECC employees and their families, rather than requiring an employee contribution that is in line with prevailing industry standards.
- Continuing to grant generous salary increases and benefits even as the utility's financial condition deteriorated, while also ignoring the earlier PSC directive to bring expenses under control.
- Not reducing fees and health care insurance benefits for Grayson RECC's board of directors, and, in some cases, their families, an issue raised by the PSC in its 2013 order.
- Seemingly failing to understand "the correlation between perpetuating self-serving policies that involve expenses not allowed for rate-making purposes and how they erode Grayson RECC's" financial condition, which the utility itself described as dire in its request for a rate increase.

In the management audit order, the PSC said the benefits paid to the utility's former outside attorney and his wife show "a blatant disregard for controlling costs." Although the attorney never was a Grayson RECC employee and no longer represents Grayson RECC, the utility is obligated by contract to pay the health insurance costs for the couple for as long as they live, a situation the PSC said is "unconscionable."

It is unclear whether Grayson RECC's leadership was unaware of the practices or doesn't have sufficient understanding of proper management practices to be able to recognize the problems and take corrective action, the PSC said.

"Much more concerning is the possibility that the Board of Directors and management are not addressing the policies that are having a negative impact on Grayson RECC because these policies perpetuate the self-serving culture that has historically benefitted the very individuals responsible for budgeting and allocating Grayson RECC's resources," the PSC said in the rate case and in ordering the management audit.

Because of the concerns, the PSC will initiate a management audit of the utility. The audit will examine all aspects of Grayson RECC's management, including long-term planning, the role of the board of directors, financial management and personnel functions. The audit also will examine "the necessity and feasibility of Grayson RECC merging with another electric utility."

-more-

Under state law, an independent consultant selected by the PSC will conduct the audit at the utility's expense. The consultant will issue a report with recommendations that can lead to a corrective action plan. The management audit process typically takes about a year to complete, although implementation of an action plan can last well beyond that time.

The PSC conducted a hearing in the rate case on February 19. The only other party to the proceeding was the Kentucky Office of Attorney General.

Today's orders, a video recording of the hearing and other records in the case are available on the PSC website, psc.ky.gov. The case number is 2018-00272. The management audit case number is 2019-00101.

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,100 gas, water, sewer, electric and telecommunication utilities operating in Kentucky.

-30-

FOLLOW THE PSC ON TWITTER @KYPSC

QUESTIONS OR PROBLEMS REGARDING YOUR UTILITY SERVICE?

CALL THE PSC CONSUMER HOTLINE: 800-772-4636