



Matthew G. Bevin
Governor

Charles G. Snavelly
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

October 8, 2019

PSC STAFF OPINION 2019-013

Timothy J. Sharp
Salt River Electric Cooperative Corporation
111 West Brashear Avenue
Bardstown, KY 40004

Re: Salt River Electric Cooperative Corporation 2019-2022 Construction Work Plan

Dear Mr. Sharp:

Commission Staff acknowledges receipt of your letter dated April 30, 2019, on behalf of Salt River Electric Cooperative Corporation (Salt River),¹ in which you request an opinion as to whether any or all projects contained in Salt River's 2019-2022 Construction Work Plan (CWP) require a Certificate of Public Convenience and Necessity (CPCN) or whether the projects fall within the "ordinary course of business" exemption and, therefore, do not require a CPCN.

Pursuant to the Commission's decision that each construction project contained in a CWP should be analyzed on an individual basis to determine whether that individual project is exempt from the requirement in KRS 278.020(1) to obtain a CPCN, Commission Staff has reviewed the projects contained in Salt River's 2019-2022 CWP. This letter represents Commission Staff's opinion, which is advisory in nature, and not binding on the Commission should the issues herein be formally presented for Commission resolution.

As with all legal opinions requesting a determination of the exemption from the requirement of a CPCN, Commission Staff's review does not consider the reasonableness or the need for each project. Therefore, because reasonableness and need are not considered herein, or in other non-rate cases, the cost of such a project can be denied recovery in a rate case if found to be unreasonable or unnecessary.

¹ Salt River submitted an identical request dated February 13, 2019.

According to its 2019-2022 CWP, Salt River proposes construction identified by the following RUS Codes: (1) Code 100 construction for new services at an estimated total cost of \$10,350,585; (2) Code 300 line conversion and replacement at an estimated total cost of \$14,191,950; (3) Code 600 for miscellaneous distribution equipment and pole changes at an estimated total cost of \$21,364,185 (which includes \$11,602,000 for the proposed Code 601 AMI project); and (4) Code 700 security lighting at an estimated total cost of \$1,173,546.

KRS 278.020(1) provides, in relevant part, as follows:

No person, partnership, public or private corporation, or combination thereof shall commence providing utility service to or for the public or begin the construction of any plant, equipment, property, or facility for furnishing to the public any of the services enumerated in KRS 278.010, except retail electric suppliers for service connections to electric consuming facilities located within its certified territory and ordinary extensions of existing systems in the usual course of business, until that person has obtained from the Public Service Commission a certificate that public convenience and necessity require the service or construction.

Regarding the exception to the CPCN requirement, Administrative Regulation 807 KAR 5:001, Section 15(3) provides, in full, as follows:

Extensions in the ordinary course of business. A certificate of public convenience and necessity shall not be required for extensions that do not create wasteful duplication of plant, equipment, property, or facilities, or conflict with the existing certificates or service of other utilities operating in the same area and under the jurisdiction of the commission that are in the general or contiguous area in which the utility renders service, and that do not involve sufficient capital outlay to materially affect the existing financial condition of the utility involved, or will not result in increased charges to its customers.

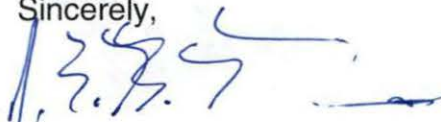
In analyzing whether the proposed projects would materially affect Salt River's financial condition, Commission Staff takes notice of Salt River's 2018 Annual Report, which shows Salt River having net utility plant of approximately \$70,742,622 as of December 31, 2018. When reviewed individually, each proposed construction project based on its estimated cost, with the exception of the Code 601 AMI project, would not materially impact Salt River's existing financial condition. Therefore, each construction project, except for the Code 601 AMI project, is generally considered to be an extension

in the ordinary course of business. Likewise, the cost estimate of each project considered separately in the 2019-2022 CWP, except for the Code 601 AMI project, will not have an immediate or significant impact on Salt River's rates. Lastly, the individual construction projects, except for the Code 601 AMI project, would not result in wasteful duplication of facilities or conflict with the service of other utilities. Thus, Commission Staff is of the opinion that each of the proposed projects set out in Salt River's 2019-2022 CWP, with the exception of the Code 601 AMI project, satisfy the "ordinary course of business" exemption from CPCN requirement.

Regarding the Code 601 AMI project, Salt River's 2019-2022 CWP provides that the current AMI system has reached obsolescence and, beginning June 1, 2020, Salt River will no longer be able to purchase replacement parts for the current AMI system. Salt River anticipates purchasing and replacing 51,000 single-phase meters at an estimated cost of \$219 per meter and 1,000 three-phase meters at an estimated cost of \$433 per meter over the four-year CWP period. The total estimated cost for the 52,000 AMI meters is estimated to be \$11,602,000. Given the scope of the proposed AMI project, Commission Staff is of the opinion that this project and any other individual project contained in Salt River's 2019-2022 CWP that is associated with the AMI project² would require a CPCN prior to engaging in this project.³

This letter represents Commission Staff's interpretation of the law as applied to the facts presented. This opinion is advisory in nature and not binding on the Commission should the issues herein be formally presented for Commission resolution. Questions concerning this opinion should be directed to Quang D. Nguyen at (502) 782-2586.

Sincerely,



J.E.B. Pinney
Acting General Counsel

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² Based upon the information provided in Salt River's 2019-2022 CWP, it is unclear whether the AMI project consists only of replacing the 52,000 single-phase and three-phase meters or if the AMI project would consist of other projects in addition to the meters.

³ See, PSC Staff Opinion Letter 2014-016 (Replacing a significant amount of existing meters could trigger CPCN review process).