



Andy Beshear
Governor

Rebecca W. Goodman
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

January 28, 2020

PSC STAFF OPINION 2020-001A

Hon. James M. Crawford
Crawford & Baxter P.S.C.
P.O. Box 353
523 Highland Avenue
Carrollton, KY 41008

Re: Owen Electric Cooperative, Inc. 2020-2021 Construction Work Plan

Dear Mr. Crawford:

On January 15, 2020, Commission Staff issued PSC Staff Opinion 2020-001 regarding Owen Electric Cooperative, Inc.'s (Owen Electric) 2020-2021 Construction Work Plan (CWP) wherein Commission Staff determined that none of the projects contained in the 2020-2021 CWP required a Certificate of Public Convenience and Necessity (CPCN) except the Code 606 and Code 608 projects relating to pole changes and overhead conductor replacement, respectively. Based on the information provided by Owen Electric at that time, Staff was unable to conclude whether the Codes 606 and 608 projects fell within the "ordinary course of business" exemption from the CPCN requirement and requested Owen Electric to provide additional information concerning those projects.

On January 24, 2020, Owen Electric submitted a letter providing additional information on the Code 606 and Code 608 projects. In the January 24, 2020 letter, Owen Electric explained that it has identified approximately 700 poles that would be considered lower priority poles still to be changed out as of the end of 2019. Owen Electric further explained that the increase in the backlog was due to the loss of an outside contractor in April 2018 and an increase in construction for new connects and highway projects. Owen Electric notes that it is targeting 1,000 poles for change out during the two-year CWP period, which would resolve the backlog by the end of 2022. Lastly, Owen Electric informs that the increase in the projected cost for each pole replacement is reflective a four percent inflation rate compounded annually from 2018. Owen Electric states that the four

percent inflation rate is the RUS recommended annual inflation rate per the Kentucky RUS General Field Representative.

With respect to the overhead conductor replacement projects (Code 608), Owen Electric informs that the increased in the projected number of miles for aged conductor replacement is due to a construction contractor going out of business, which caused Owen Electric divert its in-house crews away from work such as aged conductor change out and pole change outs to work on typical contractor jobs. This, in turn, resulted in the number of miles of conductor replaced in 2018 to fall from what was intended. A second reason cited by Owen Electric involved the company's initiative in 2015 to replace porcelain cutouts throughout its system. The cutout replacement was handled by Owen Electric crews, which caused the number of aged conductors replacement jobs to decline from the historical trend between 2015 and 2019. Owen Electric states that it retained two new construction contractors in 2019 and the porcelain cutout initiative was completed at the end of 2019. This will allow Owen Electric to renew the focus on aged conductor change outs beginning with the 2020-2021 CWP. As for the increase in the cost per mile, Owen Electric states that the 24-month historical cost average for 2017-2018 of \$64,021 was heavily skewed toward mostly straightforward single phase overhead replacement projects in 2017. Owen Electric points out that the RUS Code 608 category includes replacement of any aged-deteriorating overhead or underground conductor and that replacement costs related to overhead conductors is lower as compared to the cost of replacing underground conductors. Owen Electric avers that the historical costs per mile for 2015, 2016, 2018, and 2019 were higher than that of 2017 and that the more recent 24-month average, 2018-2019 is \$177,982. Owen Electric states that the starting cost per mile of \$175,000 was chosen for the 2020-2021 CWP based upon the 2018 and year-to-date 2019 average cost per mile and factoring in a four percent annual inflation to arrive at the 2021 cost per mile of \$182,000. Owen Electric states that using the more recent two-year cost per mile average of \$177,982 as the basis for the 2020-2021 CWP would provide for sufficient funding to handle the possible mix of underground, multi-phase and single phase overhead projects experienced by Owen Electric in the last two years.

Commission Staff has reviewed the supplemental information and is of the opinion that the Code 606 and Code 608 projects fall within the "ordinary course of business" exemption and do not need a CPCN. The projects will not materially affect Owen Electric's existing financial condition,¹ will not have an immediate impact on Owen Electric's rates, and will not result in wasteful duplication of facilities or conflict with the service of other utilities.

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

¹ As noted in PSC Staff Opinion 2020-001, Owen Electric has a net utility plant of approximately \$140,837,199 as of December 31, 2018.

concerning this opinion should be directed to Quang D. Nguyen at (502) 782-2586.

Sincerely,

A handwritten signature in blue ink that reads "JEB Pinney as/permission from". The signature is written in a cursive style.

John E.B. Pinney
Acting General Counsel

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