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February 26, 2020

PSC STAFF OPINION 2020-002A

Mr. Ted Hampton
Manager, CEO
Cumberland Valley Electric
P.O. Box 440
Gray, KY 40734

Re: Cumberland Valley Electric 2020-2023 Construction Work Plan

Dear Mr. Hampton:

On January 24, 2020, Commission Staff issued PSC Staff Opinion 2020-002 regarding Cumberland Valley Electric's (Cumberland Valley) 2020-2023 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 project relating to pole changes. Based on the information provided by Cumberland Valley at that time, Staff was unable to conclude whether the Code 606 project fell within the "ordinary course of business" exemption from the CPCN requirement and requested Cumberland Valley to provide additional information concerning those projects.

Cumberland Valley submitted a letter, dated February 7, 2020, providing additional information on the Code 606 project. In the February 7, 2020 letter, Cumberland Valley revised the average replacement cost per pole for the years 2017 and 2018. Cumberland Valley noted that the average replacement cost per pole for 2017 should have been \$3,484 rather than \$3,252 and the cost for 2018 was actually \$5,077 instead of the \$7,451. Cumberland Valley explained that the revised cost numbers for 2017 were primarily due to some work orders associated with pole changes opened and completed in 2017 but were held open awaiting reimbursement payments that were made in 2018. Cumberland Valley noted that this resulted in a mismatch of pole count and costs for both 2017 and 2018. Cumberland Valley also explained that the higher cost for 2018, as originally provided, was influenced by closed work orders for work performed for the Kentucky Communications Network Authority (KCNA), which is the state agency responsible for the construction, maintenance, and management of its state-wide

broadband internet over fiber optic cable initiative, and that the cost for such work was relatively more expensive due to extra safety precautions. Cumberland Valley noted, however, that the costs in connection with the KCAN work should not have been included in Cumberland Valley's average pole replacement cost calculation because those costs were paid by KCNA. Cumberland Valley also pointed out that there are a number of factors that could affect the cost of changing poles ranging from accessibility, soil conditions, overtime work, labor requirement, the type of work, and the type, length, and class of existing and replacement pole. Lastly, Cumberland Valley indicated that the amount used in the CWP are budgetary figures that are based upon historical costs and that, regardless of the budgeted amount, only the actual cost on a per work order basis is submitted by Cumberland Valley to RUS for the drawdown of funds.

With respect to the average cost per service for underground work in 2017 and 2018, Cumberland Valley explained that Code 101 includes any projects that has an underground service regardless of whether the up-line new primary and secondary systems serving the new underground connection is wholly underground, partially underground, or wholly overhead. Cumberland Valley noted that in 2018 it constructed lines to connect five new cell tower sites and that each of the cell towers were served with an underground service. Cumberland Valley further noted that the total length of line for these five sites was 6,712 feet and of that total, 461 feet was underground. The average cost per underground service for these five cell towers was \$20,514.07, which, according to Cumberland Valley, greatly impacted the average cost of underground services for 2018.

Lastly, with respect to the projected replacement of meters over the four-year CWP period, Cumberland Valley states that it is in the midst of an AMI project approved by the Commission in Case No. 2018-00056 and that the project involves installation of network gear and replacement of all of its meters. Due to delays in beginning the AMI project, Cumberland Valley states that approximately 8,000 meters were replaced in 2019 and now anticipates that the remainder of its meters, approximately 16,000, will be replaced in 2020. Cumberland Valley further states that the estimated 2,750 meters to be changed in 2022 and 2023 is due to anticipated change-outs for the beginning cycles of regulatory periodic meter testing.

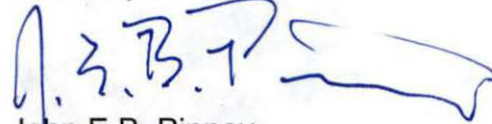
Commission Staff has reviewed the supplemental information and is of the opinion that the Code 606 project falls within the "ordinary course of business" exemption and does not need a CPCN. The project will not materially affect Cumberland Valley's existing financial condition,¹ will not have an immediate impact on Cumberland Valley'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

¹ As noted in PSC Staff Opinion 2020-002, Cumberland Valley has a net utility plant of approximately \$64,562,429 as of December 31, 2018.

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,



John E.B. Pinney
Acting General Counsel

QN/kg