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December 21, 2020

PSC STAFF OPINION 2020-010

Hon. Thomas C. Brite
Brite & Hopkins, PLLC
107 South Main Street
P.O. Box 309
Hardinsburg, KY 40143-0309

Re: Meade County RECC 2021-2023 Construction Work Plan

Dear Mr. Brite:

Commission Staff acknowledges receipt of your letter dated September 29, 2020, on behalf of Meade County Rural Electric Cooperative Corporation (Meade County RECC) requesting a staff advisory opinion. Specifically, the letter requests an opinion as to whether any or all projects contained in Meade County RECC's 2021-2023 Construction Work Plan (CWP), other than those projects associated with the full AMI deployment, 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 Meade County RECC's 2021-2023 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.

According to its 2021-2023 CWP, Meade County RECC proposes construction identified by the following RUS Codes: (1) Code 100 construction for new services at an estimated total cost of \$3,574,072; (2) Code 300 line conversion and replacement at an estimated total cost of \$284,610; (3) Code 400 new substation at an estimated total cost of \$1,767,000; (4) Code 500 substation improvements at an estimated total cost of \$468,000; (5) Code 600 miscellaneous distribution equipment at an estimated total cost of \$11,400,532;¹ and (6) Code 700 other distribution items (security lights, SCADA, and AMI) at an estimated cost of \$2,819,304.

Meade County RECC states that its AMI pilot program was successfully deployed in 2019 and that Meade County RECC intends to proposed a fully AMI deployment, which would consist of approximately \$4.1 million for 28,000 meters² and \$1.5 million for hardware.³ Meade County RECC acknowledges that it will need to file a CPCN application to request Commission approval of the AMI upgrade project components.

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

¹ The estimated cost of each individual Code 600 projects over the three-year CWP period are as follows:

- Code 601 – New Transformers/Meters.....\$6,427,851
- Code 602 – Service Upgrades.....\$380,060
- Code 603 – Line Sectionalizing\$300,000
- Code 606 – Pole Replacements\$2,874,026
- Code 608 – Conductor Replacements.....\$1,418,595

² The AMI meters are reflected as one of the Code 601 projects in Meade County RECC's 2021-2023 CWP.

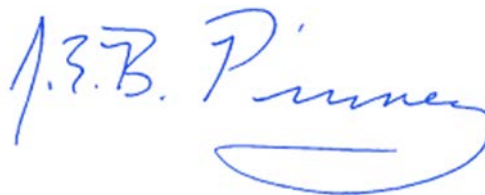
³ The AMI hardware upgrade is reflected as a Code 705 project in Meade County RECC's 2021-2023 CWP.

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 Meade County RECC's financial condition, Commission Staff takes notice of Meade County RECC's 2019 Annual Report, which shows Meade County RECC having net utility plant of approximately \$85,056,609 as of December 31, 2019. With the exception of the Code 601 AMI Meters and the Code 705 AMI Hardware projects, Commission Staff is of the opinion that the individual projects in Meade County RECC's 2021-2023 CWP do not require a CPCN. When reviewed individually, each of those proposed construction project based on its estimated cost would not materially impact Meade County RECC's existing financial condition. Therefore, each construction project is generally considered an extension in the ordinary course of business except for the Code 601 AMI Meters and the Code 705 AMI Hardware projects. Likewise, the cost estimate of each project considered separately in the 2021-2023 CWP, other than those AMI related projects, will not have an immediate or significant impact on Meade County RECC's rates. Lastly, the individual construction projects 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 Meade County RECC's 2021-2023 CWP, with the exception of the Code 601 AMI Meters and Code 705 AMI Hardware projects, satisfy the "ordinary course of business" exemption from CPCN requirement.

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,



John E.B. Pinney
Acting General Counsel