



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

Kent A. Chandler
Vice Chairman

Talina R. Mathews
Commissioner

April 21, 2021

PSC STAFF OPINION 2021-002

Mr. Bradley Cherry
Interim President / CEO
Grayson Rural Electric Cooperative Corporation
109 Bagby Park
Grayson, KY 41143-1292
Bradley.Cherry@GraysonRECC.com

Re: Grayson Rural Electric Cooperative Corporation Mid 2020-Mid 2024
Construction Work Plan

Dear Mr. Cherry:

Commission Staff acknowledges receipt on March 30, 2020, of your letter on behalf of Grayson Rural Electric Cooperative Corporation (Grayson RECC) requesting a staff advisory opinion. Specifically, the letter requests an opinion as to whether any or all projects contained in Grayson RECC's Mid 2020-Mid 2024 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 Grayson RECC's Mid 2020-Mid 2024 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 Mid 2020-Mid 2024 CWP, Grayson RECC proposes construction identified by the following RUS Codes: (1) Code 100 construction for new services at an estimated total cost of \$2,711,647; (2) Code 300 line conversion and replacement at an estimated total cost of \$2,122,729; (3) Code 600 miscellaneous distribution equipment at an estimated total cost of \$10,600,530;¹ and (6) Code 700 other distribution items (security lights and AMI equipment) at an estimated cost of \$1,565,094.

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.

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

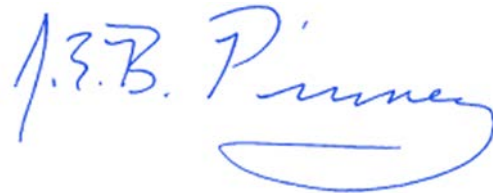
- Code 601 - New Transformers/Meters\$3,241,719
- Code 602 - Service Upgrades \$279,709
- Code 603 – Sectionalizing Equipment \$400,000

- Code 604 - Voltage Regulators\$445,312
- Code 606 - Pole Replacement \$5,923,125
- Code 608 - Conductor Replacement.....\$310,665

In analyzing whether the proposed projects would materially affect Grayson RECC's financial condition, Commission Staff takes notice of Grayson RECC's 2019 Annual Report, which shows Grayson RECC having total utility plant of approximately \$85,601,035 as of December 31, 2019. Commission Staff is of the opinion that the individual projects in Grayson RECC's Mid 2020-Mid 2024 CWP do not require a CPCN. When reviewed individually, each of those proposed construction project based on its estimated cost would not materially impact Grayson RECC's existing financial condition. Therefore, each construction project is generally considered an extension in the ordinary course of business. Likewise, the cost estimate of each project considered separately in the Mid 2020-Mid 2024 CWP will not have an immediate or significant impact on Grayson 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 Grayson RECC's Mid 2020-Mid 2024 CWP 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 Andrew Bowker at (502) 782-2580.

Sincerely,



John E. B. Pinney
Acting General Counsel

kg