

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF SOUTH KENTUCKY RURAL)	
ELECTRIC COOPERATIVE CORPORATION FOR)	
A CERTIFICATE OF CONVENIENCE AND)	CASE NO.
NECESSITY TO CONSTRUCT A DISTRICT)	2006-00402
OFFICE AND SERVICE FACILITY IN RUSSELL)	
SPRINGS, KENTUCKY AND A DISTRICT OFFICE)	
AND SERVICE FACILITY IN ALBANY, KENTUCKY)	

O R D E R

South Kentucky Rural Electric Cooperative Corporation (“South Kentucky”) filed an application on September 7, 2006 for a Certificate of Public Convenience and Necessity (“CPCN”) to construct two district office and service facilities, the first in Russell Springs and the second in Albany, Kentucky. The estimated construction costs, land costs, and annual operating costs of the two buildings are as follows:

	Construction Costs	Land Costs	Annual Operating Costs
Russell Springs	\$2,168,390	\$292,048	\$132,750
Albany	\$2,168,390	\$116,488	\$132,750

Each of the proposed buildings will be sited on four to five acres. Both proposed buildings are identical 16,000-square-foot, one-story buildings consisting of 6,550 square feet of office space and 9,450 square feet for service facilities. South Kentucky proposes to finance the construction with 100 percent Federal Financing Bank loans through Rural Development.

The existing office space, warehouse, number of employees, number of customers served from each office, and other relative information is as follows:

	Office Space (square feet)	Warehouse (square feet)	Customers (Number)	Current Employees (Number)	Distance from Headquarters (miles)	Current Land (acres)
Russell Springs	2,490	2,000	10,914	13	29.2	8.77
Albany	2,910	1,464	6,984	13	48.4	1.72

The rationale and justification for the new buildings are as follows:

Russell Springs

1. Traffic flow problems at the office parking entrance between utility vehicles and member vehicles.
2. The present facilities will not accommodate any projected growth.
3. The present facilities are sited inappropriately for consideration for any type of expansion.

Albany

1. The building does not lend to any expansion or renovation due to traffic flow or available land area.
2. Bringing the facility up to ADA or OSHA standards would be difficult.
3. Present facility will not accommodate for any projected growth.

The following issues relate to both Russell Springs and Albany: (1) space needed for storage is currently used for other employee needs; (2) there is no place to discuss confidential matters with members or employees; (3) daily cash counts are open to view by employees and customers; and (4) the increase in technology

applications and uses by South Kentucky's outside staff have created the need for additional work space and computer docks.

With the completion of the proposed district offices in Russell Springs at a cost of about \$2,460,000 and Albany at a cost of about \$2,285,000 added to the recently completed Whitley City District Office¹ constructed at a cost of about \$2,510,000, South Kentucky will have constructed three new district office buildings at a cost of approximately \$7,255,000 in just less than 3 years. South Kentucky's plans are to replace its headquarters facilities in Somerset by 2010² at a cost in excess \$13,940,000.³ Originally, South Kentucky also planned to replace the Monticello District Office with a new facility similar to the other three district offices. However, South Kentucky has offered to purchase all of the fixed assets of the Monticello Electric Plant Board ("MEPB"). If that purchase is consummated, the current MEPB office would meet the needs of the Monticello area, and South Kentucky will not need to construct additional facilities.⁴ South Kentucky has not provided the appraised value of the MEPB office, but since it will meet the needs of the Monticello area and eliminate the need to build a new Monticello District Office, it could be presumed that the appraised value

¹ Authorized in Case No. 2005-00261, Application of South Kentucky Rural Electric Cooperative Corporation for a Certificate of Convenience and Necessity to Construct a District Office in Whitley City, Kentucky, Order dated November 14, 2005.

² South Kentucky's Response to Staff's Data Request of December 14, 2006, Item 4.

³ South Kentucky's Response to Staff's Data Request of October 23, 2006, Item 1. Excludes land cost.

⁴ Id.

could be as much as the tentative cost of the Monticello District Office previously provided by South Kentucky of approximately \$2,199,000.⁵ In any case, even without including the value of the MEPB office, South Kentucky will expend in excess of \$13,940,000 to replace the Somerset headquarters building. The total amount of construction related to four offices will exceed about \$21,195,000 within a period of roughly 5 years.

In this case and in Case No. 2005-00261, South Kentucky submitted an October 2002 Facilities Analysis (“October 2002 Study”) conducted by the National Rural Electric Cooperative Association (“NRECA”) to justify the need for the facilities, which in part, the Commission has relied upon in authorizing CPCNs for the facilities in Whitley City, Russell Springs, and Albany. While NRECA’s October 2002 Study may support the need for facilities according to South Kentucky, the October 2002 Study did not address the time frame in which the construction should be initiated and completed.

Regardless of the need, the Commission is concerned with South Kentucky’s plans to undertake replacement of all of its office facilities in such a short period of time. In this case, South Kentucky provided a 10-year financial forecast from 2006 through 2015 that reflected the impact of the Russell Springs and Albany construction, as well as the recent Whitley City construction, which indicated the need for a rate increase near the end of the forecast period.⁶ In addition, South Kentucky provided a 10-year

⁵ Id., Item 8, page 2 of 2.

⁶ Application, Exhibit 7, page 1. No increase was modeled, but it appeared that an increase would be needed in 2014.

financial forecast from 2006 through 2015 that reflected the impact of the Russell Springs and Albany construction, as well as the recent Whitley City and Somerset headquarters construction. The forecast, including the Somerset construction, indicated the need for a rate increase in 2012, 2 years prior to that reflected in the prior forecast.⁷

South Kentucky was granted a \$5,733,000 rate increase on August 31, 2006⁸ which was its first rate increase in over 15 years since its last increase on August 21, 1989.⁹ Its forecast with all construction, except for Monticello, now shows the need for a rate increase within 6 years from the last increase. The Commission is concerned that South Kentucky plans to spend such significant dollars on non-revenue producing and non-reliability related capital construction given the need for another rate increase so shortly after the 2006 increase. Therefore, South Kentucky is hereby notified that in its next request for a CPCN for an office facility, should its financial forecasts continue to reflect the need for a rate case in the near future, it will be required to justify the immediate need for the construction and show that it will not significantly harm its member-owners.

Due to the impracticality of renovating the existing facilities, and the physical limitations of each site, renovation is neither cost-effective nor feasible. The best

⁷ South Kentucky's Response to Staff's Data Request of December 14, 2006, Item 5.

⁸ Case No. 2005-00450, Application of South Kentucky Rural Electric Cooperative Corporation for an Adjustment of Rates, Order dated August 31, 2006.

⁹ Case No. 1989-00040, The Application of South Kentucky Rural Electric Cooperative Corporation of Somerset, Kentucky for an Order Authorizing it to Increase its Retail Rates Applicable to all Customers, Order dated August 21, 1989.

alternative is to construct the proposed new facilities at Russell Springs and Albany, Kentucky. Consequently, public convenience and necessity require the construction of the new facilities, and a CPCN should be issued.

IT IS THEREFORE ORDERED that:

1. South Kentucky is granted a CPCN to construct the new facilities as proposed in its application.
2. South Kentucky shall obtain approval from the Commission prior to performing any additional construction not expressly authorized by this Order.
3. Any deviation from the construction shall be undertaken only with the prior approval of the Commission.
4. South Kentucky shall furnish documentation of the total costs of the two facilities including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that construction is substantially completed.

Done at Frankfort, Kentucky, this 28th day of February, 2007.

By the Commission

ATTEST:



Executive Director