

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

THE APPLICATION OF TAYLOR COUNTY)	
RURAL ELECTRIC COOPERATIVE)	
CORPORATION FOR AN ORDER APPROVING)	CASE NO.
ESTABLISHMENT OF A REGULATORY)	2022-00340
ASSET FOR CERTAIN OVERHEAD LINES)	
MAINTENANCE EXPENSES)	

VERIFIED APPLICATION

Comes now Taylor County Rural Electric Cooperative Corporation (“Taylor County”), by counsel, pursuant to KRS 278.030(1), KRS 278.040(2), KRS 278.220, 807 KAR 5:001, Section 14, and other applicable law, and does hereby request the Kentucky Public Service Commission (“Commission”) to approve the establishment of a regulatory asset for expenses incurred for maintenance of its overhead lines for GPS/tagging of its electrical poles, respectfully stating as follows:

I. Introduction

1. Regulatory assets, as defined in Accounting Standards Codification Topic 980, Regulated Operations (“ASC 980”), enable regulated utilities to capitalize incurred costs that would otherwise be charged to expense if it is probable that such costs will be considered allowable for rate-making purposes. Accordingly, regulatory assets enable utilities to match revenues and expenses, which offsets the impact of margin volatility associated with the regulatory lag that occurs between when allowable costs are incurred and when the next rate-making action takes

place. While ASC 980 permits the establishment of a regulatory asset when the criteria within 980-340-25-1 is met for Generally Accepted Accounting Principles (“GAAP”) reporting purposes, utilities within Kentucky must first receive authorization from the Commission. Taylor County respectfully requests the Commission to authorize it to: (1) establish a regulatory asset for certain overhead lines maintenance expenses; and (2) amortize the regulatory asset over a period of five (5) years.

II. Background

A. General Filing Requirements

2. Pursuant to 807 KAR 5:001 Section 14(1), Taylor County’s mailing address is 625 West Main Street, P.O. Box 100, Campbellsville, Kentucky 42719-0100. Taylor County’s electronic mail address to receive service is Patsy Walters at pwalters@tcrecc.com. In addition to electronic service to Taylor County’s email address, Taylor County requests service also be provided to its counsel Allyson Honaker at allyson@hloky.com.

3. Pursuant to 807 KAR 5:001, Section 14(1), the grounds for Taylor County’s request for the establishment of regulatory asset for overhead line maintenance expense for the GPS/tagging it Taylor County’s electric poles are set forth herein.

4. Pursuant to 807 KAR 5:001, Section 14(2), Taylor County is a Kentucky corporation that was incorporated on May 4, 1938 and is currently in good standing to conduct business within the Commonwealth of Kentucky.

B. Overview of Taylor County Rural Electric Cooperative Corporation

5. Taylor County is a not-for-profit, member-owned, rural electric distribution cooperative organized under KRS Chapter 279. Taylor County is engaged in the business of

distributing retail electric power to approximately 26,600 members in the Kentucky counties of Adair, Casey, Cumberland, Green, Hart, Marion, Metcalfe, Russell and Taylor.

6. Taylor County is a “utility” as that term is defined in KRS 278.010(3)(a) and a “distribution cooperative” under KRS 278.010(10) and a “retail electric supplier” under KRS 278.010(4).

7. Taylor County has 27,604 end-use members. It has 3,338 miles of distribution lines in its nine-county service territory, and owns additional facilities necessary to support this distribution system.

III. Request to Establish Regulatory Assets

8. Pursuant to KRS 278.220, the Commission has adopted the Uniform System of Accounts (“USoA”), as issued by the United States Department of Agriculture, Rural Utilities Service (“RUS”), for use by Taylor County in maintaining its financial accounts.¹ Commission precedent and RUS require that the utility obtain approval prior to establishing a regulatory asset.²

9. The Commission has previously authorized the establishment of regulatory assets where a utility has incurred: (a) an extraordinary, nonrecurring expense which could not have reasonably been anticipated or included in the utility’s planning; (b) an expense resulting from a statutory or administrative directive; (c) an expense in relation to an industry sponsored initiative; or (d) an extraordinary or nonrecurring expense that over time will result in a saving that fully offsets

¹ Codified as 7 CFR Part 1767. The current version of the RUS system of accounts became effective May 27, 2008 and is also published and referenced as RUS Bulletin 1767B-1.

² See *In the Matter of the Application of East Kentucky Power Cooperative, Inc. for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to Certain Replacement Power Costs Resulting from Generation Forced Outages*, Order, Case No. 2008-00436, p. 4 (Ky. P.S.C., Dec. 23, 2008);

the cost.³ Taylor County's costs expected to be incurred that give rise to the request to establish the regulatory assets most closely resemble the criteria listed for (a) above. These expenses were an extraordinary, nonrecurring expense which were not anticipated by Taylor County. This expense was part of a work plan and Taylor County had planned to capitalize the costs, which in turn would be expensed through depreciation expense over a period of time. However, it was later discovered through conversations with Taylor County's auditors that these costs could not be capitalized but instead had to be expensed.

10. The Field Inventory Project will provide benefits to Taylor County and its end-use members. It will provide data to drastically improve system maps thereby improving operation processes. It will also provide an accurate count of joint use attachments and a way to effectively manage those attachments going forward. In addition, it will provide required, prerequisite electrical connectivity data infrastructure so an outage management system can be installed and infrastructure to allow for future technological add-ons such as computerized field staking.

11. The creation of a regulatory asset will enable Taylor County to better match expenses with cost recovery, maintain its accounting records in a manner consistent with the RUS USoA and ASC 980, and provide for a more gradual rate impact of significant expenses to customers.

12. Taylor County hired Davey Resources Group, Inc., to tag its electric poles for GPS mapping purposes. This project was included in a previously approved RUS work plan. The work plan contemplated that the project would take approximately one-year to complete and cost approximately one million dollars (\$1,000,000.00). However, the project is taking a little longer

³ See *id.*; *In the Matter of Application of East Kentucky Power Cooperative, Inc. for an Order Approving the Establishment of a Regulatory Asset for the Amount Expended on Its Smith 1 Generating Unit*, Order, Case No. 2010-00449, p. 7 (Ky. P.S.C., Feb. 28, 2011).

than expected and is now going to be completed in 2023. Taylor County is proposing to establish the regulatory asset for this expense in order for Taylor County to be able to amortize and spread out the expense over a five-year period. If Taylor County is not permitted to amortize this cost over a period of time, Taylor County would have to expense a majority of the cost in 2022 and the remainder in 2023, which may jeopardize its RUS loan covenants.

13. ASC 980 specifies that a regulatory asset should be recognized for current expenses when it is probable that the collection of such amounts through rates or other regulatory mechanisms will occur at a later date.

14. Taylor County has received RUS's conditional approval of the establishment of a regulatory asset. The approval by RUS is conditioned upon the requirement that the Commission approve Taylor County's regulatory asset application. The RUS approval letter is attached to this Application as Exhibit 1.

15. Sample journal entries for the accounting for the regulatory asset are attached as Exhibit 2.

16. The cost estimates for this project are attached as Exhibit 3.

17. Taylor County proposes to amortize the regulatory asset over a period of five years, beginning in 2023, which is when the project is contemplated to be complete.

18. Based on the foregoing information, Taylor County requests permission to establish a regulatory asset for the GPS and tagging of its electric poles.

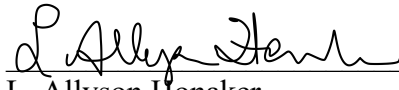
WHEREFORE, on the basis of the foregoing, EKPC respectfully requests the Commission to:

- 1) Authorize the establishment of a regulatory asset on the terms and conditions set forth herein; and,

2) Grant all other relief to which Taylor County may be entitled.

Done this 14th day of October, 2022.

Respectfully submitted,



L. Allyson Honaker

Brittany H. Koenig

HONAKER LAW OFFICE PLLC

1795 Alysheba Way, Suite 6202

Lexington, KY 40509

(859) 368-8803

allyson@hloky.com

brittany@hloky.com

*Counsel for Taylor County Rural Electric
Cooperative Corporation.*

Exhibit 1

RUS Approval Letter and Supporting Information Provided to RUS



United States Department of Agriculture

Rural Development

Electric Programs
Rural Utilities Service

1400 Independence Ave SW
Room 4133 – STOP 1560
Washington, DC 20250

Voice: 202.720.9545

May 10, 2022

Mr. Barry Myers
Manager
Taylor County Rural Electric Cooperative Corporation
P.O. Box 100
Campbellsville, Kentucky 42719-0100

Dear Mr. Myers,

In response to your letter dated May 9, 2022, we have reviewed the information submitted regarding Taylor County Rural Electric Cooperative Corporation's (Taylor County RECC) expense deferral plan pertaining to the GPS tagging of existing poles within the service area. Taylor County RECC plans to establish a regulatory asset of \$1,000,000 to be amortized from 2023-2028.

Taylor County RECC will need to file an application with the Kentucky Public Service Commission (KPSC). The KPSC requires Taylor County RECC be granted approval from the Rural Utilities Service (RUS) before applying to the KPSC for establishment of the regulatory accounts. Conditional approval is hereby granted for Taylor County RECC only for the reason of allowing Taylor County RECC to start the application process with the KPSC. If the KPSC does not approve the establishment of the regulatory asset, then it nullifies this RUS conditional approval.

All the required information was submitted in the letter and enclosure. The Rural Utility Service's (RUS) approval to implement the plan is, therefore, given. Be advised, however, that you must obtain RUS' approval prior to making any additional changes to the approved plan.

Contact the Technical Accounting Review Branch at (202) 720-8775 if you have any questions or if we can be of any further assistance.

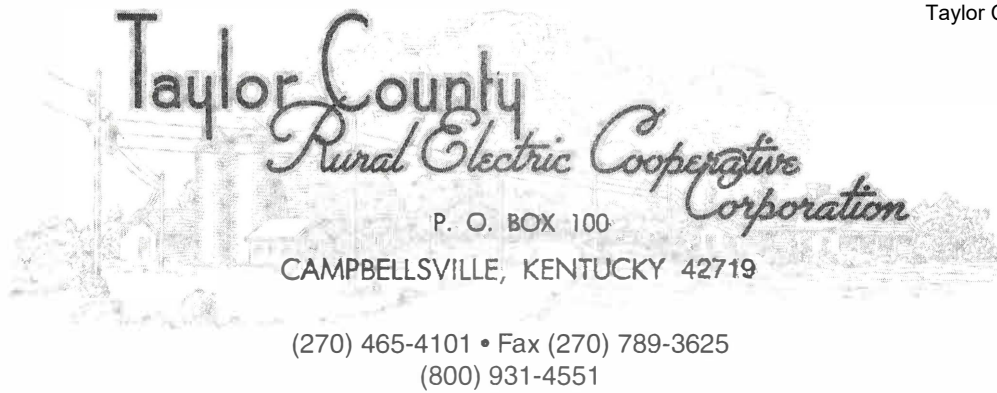
Sincerely,

Digitally signed by VICTOR

VICTOR VU

VU
Date: 2022.05.10 18:24:58
-04'00'

VICTOR T. VU
Deputy Assistant Administrator
Office of Portfolio Management and Risk Assessment



May 9, 2022

Victor Vu, Deputy Assistant Administrator
Portfolio Management & Risk Assessment Division
1400 Independence Avenue, SW
South Agriculture Building Stop 1568
Washington, DC 20250

SUBJECT: KY 23 Taylor – Expense Deferral Request-Amended

Enclosed is an *amended* corporate resolution of the board of directors for Taylor County Rural Electric Cooperative Corporation requesting an expense deferral; changes include reference to RUS and PSC.

Davey Resource Group Inc. has been hired to GPS/tag Taylor County RECC's existing poles within its service area. Such services are to be provided consistent with a previously-approved RUS work plan which contemplates that such services will require approximately one year to completion, and at a cost of approximately \$1,000,000.00.

It would be appreciated if the total cost can be deferred in a deferred account (Acct 182.30) and then amortized the total cost over a period of 5 years beginning calendar year 2023, as voted on by the board of directors on May 5, 2022.

Sincerely,

Barry L. Myers
Manager

BLM: pw

Enclosures

**CORPORATE RESOLUTION OF THE BOARD OF DIRECTORS
TAYLOR COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION**

THAT WHEREAS, Taylor County Rural Electric Cooperative Corporation (Taylor County RECC) has entered into a contract with Davey Resource Group Inc. whereby that entity has commenced to GPS/tag Taylor County's existing poles within its service area. Such services are to be provided consistent with a previously-approved RUS work plan which contemplates that such services will require approximately one year to completion, and at a cost of approximately \$1,000,000.00 with payments to be made to that contractor pursuant to monthly submitted invoices, and

WHEREAS, Taylor County RECC is advised that the expensing of the costs of this project may be achieved by recording all incurred costs in a deferred account, which total cost will then be amortized over a period of five years beginning with calendar year 2023, and

WHEREAS, establishing regulatory assets for the Expenses is a departure from the Rural Development Uniform System of Accounts that also requires prior approval by the Rural Utilities Service, and

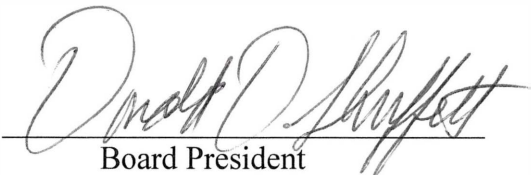
WHEREAS, Taylor County RECC understands that the aforesaid election on its part must be made, in request form, to RUS, which request will include the estimated costs, the deferred account or accounts with respect to which subject entries are to be made, and the period of amortization selected for such amortization, and

WHEREAS, Taylor County RECC has reasonable expectation that the Kentucky Public Service Commission will authorize the recovery of these costs through future rates, and

NOW THEREFORE, consistent with the foregoing, be it resolved by the Board of Directors of Taylor County RECC that the referenced deferral and periodic amortization of cost of this project be and the same is hereby approved, and that RUS be requested to account for such incurred costs in the manner set forth herein above.

It is further resolved that this resolution be spread upon the minutes of the 5th date of May, 2022 meeting of the Board of Directors and that appropriate copies thereof be provided to such regulatory agencies as may require same.

Dated this 5th day of May, 2022 at the corporate offices of Taylor County RECC in Campbellsville, Taylor County, Kentucky.


Board President

I certify that the foregoing resolution
of the Board of Directors for Taylor County RECC
was duly adopted by unanimous vote of its
Board of Directors on this 5th day of
May, 2022.


Secretary, Taylor County RECC

RUS REQUIREMENTS FOR AN EXPENSE DEFERRAL PLAN
Taylor County Rural Electric Cooperative Corporation – KY 23 Taylor
GPS and Pole Tagging Project – 2022

1. A detailed description of the plan including the nature of the expense item, the amount of deferral, the specific time period for rate recovery, and justify support for the time period selected.

Davey Resource Group Inc. has been hired to GPS/tag Taylor County RECC's existing poles within its service area. Such services are to be provided consistent with a previously-approved RUS work plan which contemplates that such services will require approximately one year to completion, and at a total cost of approximately \$1,000,000. The GPS and pole tagging are both after the initial installation of the pole, so the costs must be expensed. Taylor County RECC has two (2) options to expense the costs. First, the coop can expense the costs as they are incurred. The other option is to record all costs in a deferred account and then amortize the total cost over a period of years.

Taylor County RECC is proposing to record all costs in a deferred account and then amortize the total cost of approximately \$1,000,000 over five years, which would result in an expense of \$200,000 each calendar year, beginning with the year the work is completed (2023).

Taylor County RECC states that without the proposed accounting treatment of the deferral and monthly amortization, it would incur a large expense to its 2022 calendar year end income statement that may jeopardize its RUS mortgage covenants. Taylor County RECC Board of Directors are proposing a five year period since this service is consistent with a previously-approved RUS work plan.

2. The accounting journal entries being used by the cooperative to record the expense deferral and amortization of the deferred costs.

Dr. Account 182.30 – Other Regulatory Assets
 Cr. Account 593.00 – Maintenance of Overhead Lines
To record expense deferral

Dr. Account 593.00 – Maintenance of Overhead Lines
 Cr. Account 182.30 – Other Regulatory Assets
To recognize expense and amortize deferral

3. A resolution from the cooperative's board of directors stating that the cooperative elects to defer the costs associated with the expense deferral plan and authorizes the recovery of these costs through future rates.

A resolution from the Taylor County RECC's Board of Directors was approved May 5, 2022.

Taylor County RECC has a reasonable expectation that the Kentucky Public Service Commission will authorize the recovery of these costs through future rates, based on the facts that the Commission has the legal authority to do so and has done so in other distribution cooperative rate filings on similar matters.

4. Approval from the state regulatory commission in those states which the commission has jurisdiction over the cooperative's rate-making activities.

Taylor County RECC is working with legal counsel seeking approval of the deferral plan from the Kentucky Public Service Commission.

Exhibit 2

Sample Journal Entries

- Sample Journal Entry to record expense deferral:

Dr. Account 182.30 - Other Regulatory Assets

Cr. Account 593.00 - Maintenance of Overhead Lines

- Sample Journal Entry to recognize expense and amortize deferral:

Dr. Account 593.00 - Maintenance of Overhead Lines

Cr. Account 182.30 - Other Regulatory Assets

Exhibit 3

Cost Estimates and Expenses Incurred

EXHIBIT 3

**TAYLOR COUNTY RECC
P O BOX 100
CAMPBELLSVILLE KY 42719
PSC CASE NO. 2022-**

Witness: Patsy R. Walters

DAVEY RESOURCE GROUP, INC
GPS/POLE TAGGING EXPENSE & COST ESTIMATE

DATE	AMOUNT
Jan-22	23,760.00
Feb-22	31,469.51
Mar-22	69,410.35
Apr-22	44,765.93
May-22	70,571.90
Jun-22	67,036.32
Jul-22	65,490.29
Aug-22	<u>35,240.38</u>
TOTAL PAID TO DATE	407,744.68
9/30/2022	60,000.00
10/31/2022	60,000.00
11/30/2022	60,000.00
12/31/2022	60,000.00
1/31/2023	60,000.00
2/28/2023	60,000.00
3/31/2023	60,000.00
4/30/2023	60,000.00
5/31/2023	60,000.00
6/30/2023	<u>60,000.00</u>
ESTIMATED COST TO COMPLETION	600,000.00
TOTAL ESTIMATED COST OF COMPLETION	<u><u>\$1,007,744.68</u></u>