

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF JACKSON	)	
PURCHASE ENERGY CORPORATION FOR A	)	CASE NO.
CERTIFICATE OF PUBLIC CONVENIENCE AND	)	2019-00326
NECESSITY TO CONSTRUCT A NEW	)	
HEADQUARTERS FACILITY	)	

ORDER

On September 13, 2019, Jackson Purchase Energy Corporation (Jackson Purchase Energy) filed an application seeking authority for a Certificate of Public Convenience and Necessity (CPCN) to construct a new headquarters facility.

Commission Staff issued, and Jackson Purchase Energy responded to, one request for information. No person has sought intervention in this matter. On December 13, 2019, Jackson Purchase Energy filed a motion requesting that the matter be submitted for a decision based on the existing record. The Commission finds that Jackson Purchase Energy's motion is reasonable and should be approved. The matter now stands submitted for a decision based on the evidentiary record.

PROPOSED FACILITY

Jackson Purchase Energy is a not-for-profit, member-owned, rural electric distribution cooperative organized under KRS Chapter 279. Jackson Purchase Energy provides retail electric service to approximately 30,000 members in Ballard, Carlisle, Graves, Livingston, Marshall and McCracken Counties, Kentucky.<sup>1</sup>

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<sup>1</sup> Application at 1.

Jackson Purchase Energy proposes to purchase an existing building and surrounding property and remodel the building to serve as its new headquarters facilities. The proposed headquarters is located on 40 acres at 6525 U.S. Highway 60, Paducah, Kentucky.<sup>2</sup> The property is currently owned by Paducah Regional Sports Plex, LLC.<sup>3</sup> (Sports Plex, LLC). The existing Sports Plex LLC. building includes a 79,700 sq. ft. commercial building.<sup>4</sup> Jackson Purchase Energy proposes to modify/remodel the entire commercial building into space for administrative offices, a warehouse, material storage, operations, and maintenance, and to provide a covered parking area.<sup>5</sup> Jackson Purchase Energy estimates that approximately 14,600 sq. ft. will be renovated for administrative offices; 10,300 sq. ft. for engineering and operations support; 24,000 sq. ft. for vehicle storage; 22,000 sq. ft. for warehouse and material storage; and 8,000 sq. ft. for vehicle maintenance.<sup>6</sup> An office entry addition of 800 sq. ft. also will be built by Jackson Purchase Energy.<sup>7</sup>

Jackson Purchase Energy retained Cooperative Building Solutions (CBS) to provide a comprehensive facilities planning study and to provide design, pre-construction

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<sup>2</sup> *Id.* at 5.

<sup>3</sup> *Id.*

<sup>4</sup> *Id.* at 6.

<sup>5</sup> *Id.*

<sup>6</sup> *Id.*

<sup>7</sup> *Id.*

and construction administration services for the proposed headquarters.<sup>8</sup> The total cost of the project, including the purchase price of the property, is approximately \$ [REDACTED].<sup>9</sup>

In evaluating alternatives to satisfy headquarter needs, Jackson Purchase Energy analyzed the following options: (1) remodeling the existing headquarters facility to bring it up to current occupancy codes and space needs; (2) constructing a completely new headquarters facility on a hypothetical greenfield site somewhere in its service territory; or (3) constructing and repurposing the existing Sports Plex, LLC multi-use facility.<sup>10</sup> Jackson Purchase Energy decided to proceed with the repurposing of the Sports Plex, LLC building as it was the lowest cost and most reasonable option available.<sup>11</sup> Jackson Purchase Energy asserts that the existing buildings on the Sports Plex LLC property are adaptable for all its needs, and the property includes room for future expansion.<sup>12</sup>

Jackson Purchase Energy states that it will initially finance the purchase and construction through a \$20,000,000 short-term “bridge” loan in the form of a variable-rate supplemental line of credit from either National Rural Utilities Cooperative Finance Corporation or CoBank.<sup>13</sup> The line of credit’s terms will require it to be payable within a

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<sup>8</sup> *Id.*

<sup>9</sup> *Id.* The amounts associated with the purchase of real estate are the subject of the September 13, 2019 motion for confidential treatment filed by Jackson Purchase Energy. Pursuant to the Commission’s October 1, 2019 Order, the purchase price of the proposed headquarters, the anticipated cost of construction, and the estimated cost of the proposed headquarters were granted confidential treatment until such time as the real estate transactions have closed and until such time as the construction costs are final.

<sup>10</sup> Direct Testimony of Greg Grissom (Grissom Testimony) at 8.

<sup>11</sup> Grissom Testimony at 10.

<sup>12</sup> *Id.*

<sup>13</sup> Application at 9.

period of not more than two years.<sup>14</sup> Jackson Purchase Energy states that it intends to include the proposed headquarters in its 2020 Construction Work Plan and borrow from the United States Department of Agriculture’s Rural Utilities Service (RUS) on a 35-year long-term note with level debt service.<sup>15</sup> Due to the 18–24 month timeline for the purchase and construction, the line of credit will be drawn down as needed to supply capital to complete the project.<sup>16</sup> On completion of construction, the long-term loan through RUS will then be utilized to pay off the line of credit.<sup>17</sup>

Regarding the project’s impact on rates, Jackson Purchase Energy asserts that the proposed headquarters will not have a substantial impact on the rates paid by its members as shown by a ten-year financial forecast (ten-year Financial Forecast) developed by Jackson Purchase Energy to evaluate the financial and rate impact of the headquarters proposal.<sup>18</sup> The ten-year Financial Forecast compared the impact of the cost of the new headquarters facility against a base case, or “as is,” scenario, which assumes Jackson Purchase Energy utilizing its existing headquarters facility in its current state.<sup>19</sup> Jackson Purchase Energy states that it does anticipate periodic, small rate increases over a ten-year period under either the new headquarters scenario or the base case scenario.<sup>20</sup> Jackson Purchase Energy states that its ten-year Financial Forecast

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<sup>14</sup> *Id.*

<sup>15</sup> *Id.*

<sup>16</sup> *Id.*

<sup>17</sup> *Id.*

<sup>18</sup> *Id.* at 7.

<sup>19</sup> Direct Testimony of Jeffrey R. Williams (Williams Testimony) at 5–6.

<sup>20</sup> Williams Testimony at 7.

demonstrated a need for rate increases totaling approximately four percent over the ten-year period.<sup>21</sup> Specifically, Jackson Purchase Energy states that it anticipates securing small rate increases in 2021, 2023, 2025 and 2027.<sup>22</sup> According to Jackson Purchase Energy, the ten-year Financial Forecast shows, among other things, that the timing and magnitude of each of these rate increases will not be impacted by the cost of the proposed headquarters.<sup>23</sup>

## DISCUSSION

### Legal Standard

KRS 278.020(1) provides that no utility may construct or acquire any facility to be used in providing utility service to the public until it has obtained a CPCN from this Commission. To obtain a CPCN, the utility must demonstrate a need for such facilities and an absence of wasteful duplication.<sup>24</sup>

“Need” requires:

[A] showing of a substantial inadequacy of existing service, involving a consumer market sufficiently large to make it economically feasible for the new system or facility to be constructed or operated.

[T]he inadequacy must be due either to a substantial deficiency of service facilities, beyond what could be supplied by normal improvements in the ordinary course of business; or to indifference, poor management or disregard of the rights of consumers, persisting over such a period of time as to establish an inability or unwillingness to render adequate service.<sup>25</sup>

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<sup>21</sup> *Id.* at 9.

<sup>22</sup> *Id.* at 6.

<sup>23</sup> *Id.* at 7–8.

<sup>24</sup> *Kentucky Utilities Co. v. Pub. Serv. Comm'n*, 252 S.W.2d 885 (Ky. 1952).

<sup>25</sup> *Id.* at 890.

“Wasteful duplication” is defined as “an excess of capacity over need” and “an excessive investment in relation to productivity or efficiency, and an unnecessary multiplicity of physical properties.”<sup>26</sup>

#### Need for New Facility

Jackson Purchase Energy asserts that due to the existing headquarters’ size, inefficiencies, design, substandard condition, and location it cannot adequately satisfy the current and future needs of Jackson Purchase Energy and its members.<sup>27</sup> Further, Jackson Purchase Energy asserts that the buildings and site space restrictions at the existing headquarters prohibit their efficient current and future use without extraordinary building and site modifications at an extremely high cost.<sup>28</sup>

In support of its assertion that extraordinary building and site modifications are needed for continued use of the existing headquarters, Jackson Purchase Energy states the following: (1) all three buildings on the existing headquarters’ campus are in poor condition due to structural settling and aging; (2) removal and replacement of the roofs on all three buildings is necessary along with adding insulation; (3) demolition sufficient to expose and strengthen steel framing and foundations for additional bracing anchorage is required; (4) replacement of masonry veneer, HVAC mechanical system and ductwork, electrical and plumbing systems, concrete slab demolition and replacement, and architectural space planning revisions are all necessary to accommodate Jackson Purchase Energy’s current uses and needs for a modern headquarters; (5) due to

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<sup>26</sup> *Kentucky Utilities Co. v. Pub. Serv. Comm’n*, 252 S.W.2d at 890.

<sup>27</sup> Grissom Testimony at 5.

<sup>28</sup> *Id.*

Jackson Purchase Energy providing essential services to the public, all buildings would have to remain in some form of operation during the demolition and construction phases which would require temporary but extended relocation to alternate spaces; (6) the current facility has significant size and spacing problems and does not comfortably accommodate individuals with certain physical limitations, for example there are no restrooms available to the public; (7) the current buildings were not designed to accommodate new technologies, developing privacy considerations or 21<sup>st</sup> century operational efficiencies essential for reliable service to members.<sup>29</sup> CBS estimated that the cost of refurbishing the existing headquarters would be approximately \$22,303,500.<sup>30</sup>

Jackson Purchase Energy states that when the existing headquarters was constructed in 1969-70, Jackson Purchase Energy served approximately 10,000 members with a staff of 54.<sup>31</sup> Jackson Purchase Energy states that it now serves approximately 30,000 members with a staff of 75.<sup>32</sup> Jackson Purchase Energy states that it has projected 32,526 services to be in place as of 2028.<sup>33</sup>—

Jackson Purchase Energy asserts that it is not cost-effective or feasible to renovate, expand and retrofit the existing headquarters to adequately satisfy the current and future needs of Jackson Purchase Energy and its members.<sup>34</sup> Further, Jackson

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<sup>29</sup> *Id.* at 5–6.

<sup>30</sup> *Id.* at 9.

<sup>31</sup> Application at 4.

<sup>32</sup> *Id.*

<sup>33</sup> Jackson Purchase Energy's response to Commission Staff's First Request for Information (Staff's First Request), Item 5(b).

<sup>34</sup> Application at 7.

Purchase Energy asserts that, after thoroughly reviewing and considering alternatives, it determined that the proposed headquarters represents a reasonable, least-cost solution to Jackson Purchase Energy's needs.<sup>35</sup>

The Commission finds that Jackson Purchase Energy has demonstrated that the size, inefficiencies, design, and location of the existing headquarters cannot adequately satisfy the current and future needs of Jackson Purchase Energy, and it is neither cost-effective nor feasible to renovate, expand or retrofit the existing headquarters. Therefore, Jackson Purchase Energy has demonstrated, based on the evidence, that a new headquarters facility is needed.

#### Duplication of Facilities

Having determined that a new headquarters facility is needed, the Commission now addresses whether the proposed facility will result in wasteful duplication of facilities.

Jackson Purchase Energy asserts that the proposed headquarters will be able to more comfortably accommodate individuals with certain physical limitations; will be safer for employees and visitors in both emergency situations and with respect to general ingress and egress; and will include needed technological improvements essential to 21<sup>st</sup> century business.<sup>36</sup> Jackson Purchase Energy also asserts that the proposed headquarters is designed with adequate workspace and appropriate space for employee and community activities, parking, restrooms, and common areas.<sup>37</sup> Jackson Purchase Energy further states that the proposed headquarters is located in Jackson Purchase

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<sup>35</sup> *Id.*

<sup>36</sup> Grissom Testimony at 11.

<sup>37</sup> *Id.* at 12.

Energy's service territory.<sup>38</sup> Jackson Purchase Energy's existing headquarters is located in the Paducah Power System service territory.<sup>39</sup> Therefore, the proposed headquarters will allow Jackson Purchase Energy to save approximately 35 percent to 45 percent off its current power bill with Paducah Power System.<sup>40</sup>

As discussed above, Jackson Purchase Energy asserts that the buildings and site space restrictions at the existing headquarters prohibit their current and future use without extraordinary building and site modifications at an extremely high cost.<sup>41</sup> CBS estimated that the cost of refurbishing the existing headquarters would be approximately \$22,303,500.<sup>42</sup> Jackson Purchase Energy asserts that it is not cost-effective or feasible to renovate, expand, and retrofit the existing headquarters to adequately satisfy the current and future needs of Jackson Purchase Energy and its members.<sup>43</sup>

Jackson Purchase Energy asserts that the construction of a new headquarters on a greenfield site would also be an expensive option.<sup>44</sup> Jackson Purchase Energy also asserts that the availability of suitable land in the area is very limited or non-existent.<sup>45</sup> CBS estimated that the cost of constructing a completely new headquarters facility on a

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<sup>38</sup> *Id.*

<sup>39</sup> *Id.*

<sup>40</sup> *Id.*

<sup>41</sup> *Id.* at 5.

<sup>42</sup> *Id.* at 9.

<sup>43</sup> Application at 7.

<sup>44</sup> Direct Testimony of Timothy E. Masa (Masa Testimony) at 5.

<sup>45</sup> Masa Testimony at 5.

hypothetical greenfield site somewhere in Jackson Purchase Energy's service territory, including property acquisition, would be approximately \$21,685,000.<sup>46</sup>

As discussed above, Jackson Purchase Energy developed a ten-year Financial Forecast to evaluate the financial and rate impact of the headquarters proposal.<sup>47</sup> The ten-year Financial Forecast compared the impact of the cost of the new headquarters facility against a base case, or "as is," scenario which assumes Jackson Purchase Energy utilizing its existing headquarters facility in its current state.<sup>48</sup> Jackson Purchase Energy states that it does anticipate periodic, small rate increases over a ten-year period under either the new headquarters scenario or the base case scenario.<sup>49</sup> Jackson Purchase Energy asserts that the proposed headquarters will have no incremental impact on the retail rates paid by its members,<sup>50</sup> and that the anticipated rate increases are identical under the new headquarters scenario and the base case scenario.<sup>51</sup> Further, Jackson Purchase Energy asserts that the results of the new headquarters scenario will not require an adjustment to its base case scenario rate structure due to the additional costs of the proposed project.<sup>52</sup> Jackson Purchase Energy states that it anticipates that it will be able

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<sup>46</sup> Grissom Testimony at 9.

<sup>47</sup> Application at 7.

<sup>48</sup> Williams Testimony at 5–6.

<sup>49</sup> *Id.* at 7.

<sup>50</sup> *Id.*

<sup>51</sup> *Id.*

<sup>52</sup> *Id.* at 7–8.

to maintain sufficient TIER and OTIER metrics during the ten-year period without any rate revisions different than those assumed for the base case scenario.<sup>53</sup>

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that Jackson Purchase Energy's proposed new headquarters is the most reasonable, least-cost alternative and would not result in wasteful duplication. The proposed headquarters facility would reasonably satisfy Jackson Purchase Energy's near-term needs for office and warehouse space without jeopardizing its ability to expand in the future. The proposed headquarters facility is not excessive in terms of investment or scope, and thus will not result in a wasteful duplication of facilities.

#### Transfer of Assets

The Commission must also determine whether approval is required regarding the sale of the existing headquarters property. Pursuant to KRS 278.218(1), Commission approval is required prior to the transfer of ownership of assets owned by an electric utility if the assets have an original book value of \$1 million or more, and if the assets are to be transferred by the electric utility for reasons other than obsolescence, or if the assets will continue to be used to provide the same or similar service to the utility or its customers.

Jackson Purchase Energy states that the land at 2900 Irvin Cobb Drive on which the existing headquarters was built was purchased on November 4, 1968, for \$82,472.20.<sup>54</sup> Jackson Purchase Energy provided a copy of the Deed for the land purchase as a part of its November 25, 2019 response to Staff's First Request, Item 4(a). Jackson Purchase Energy goes on to state the original cost for the buildings of the

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<sup>53</sup> *Id.* at 8.

<sup>54</sup> Jackson Purchase Energy's response to Staff's First Request, Item 4(a).

existing headquarter was \$1,050,928.62,<sup>55</sup> and that the buildings were placed in service on June 30, 1974.<sup>56</sup>

Jackson Purchase Energy asserts that the buildings of the existing headquarters are fully depreciated and have no net book value as of December 31, 2018.<sup>57</sup> Jackson Purchase Energy had an appraisal done of the existing headquarters by Sloan Appraisal and Realty on February 20, 2019. The appraised value of the existing headquarters was \$[REDACTED].<sup>58</sup>

Jackson Purchase Energy asserts that because the existing headquarters would no longer be used by or useful to Jackson Purchase Energy in providing electric service to its customers, those assets would be considered obsolete and Commission approval is not required.<sup>59</sup>

Black's Law Dictionary defines obsolete as "no longer in general use; out-of-date."<sup>60</sup> Here, that Jackson Purchase Energy no longer has an intended use for the existing headquarters is not dispositive of the issue whether the property is obsolete. Jackson Purchase Energy could have chosen this site to build its new headquarters facility or for any other reasonable purpose, but opted not to do so. The property is not incapable of being used; it is, however, outdated.

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<sup>55</sup> Jackson Purchase Energy's response to Staff's First Request, Item 4(b).

<sup>56</sup> *Id.*

<sup>57</sup> *Id.*

<sup>58</sup> Jackson Purchase Energy's response to Staff's First Request, Item 4(d). The appraisal is the subject of the November 25, 2019 motion for confidential treatment filed by Jackson Purchase Energy. The Commission's Order in relation to the same is forthcoming.

<sup>59</sup> Grissom Testimony at 11.

<sup>60</sup> Black's Law Dictionary (10<sup>th</sup> ed. 2014).

The Commission, having considered the record and being otherwise sufficiently advised, finds that KRS 278.218 is applicable to Jackson Purchase Energy and that any transfer of ownership of the existing headquarters does not meet either of the exemptions provided by the statute. We find that, pursuant to KRS 278.218, the proposed sale of Jackson Purchase Energy's existing headquarters requires Commission approval.

Having reviewed and the record and being sufficiently advised, the Commission finds that:

1. The record for this case is complete.
2. The proposed purchase will not result in wasteful duplication of existing facilities.
3. The proposed purchase does not conflict with existing certificates or service of any other utility operating in the area.
4. Public convenience and necessity requires the proposed purchase, which will allow Jackson Purchase Energy to provide service that is more convenient to all members.

IT IS THEREFORE ORDERED that:

1. Jackson Purchase Energy is granted a CPCN to proceed with the proposed purchase as set forth in its application.
2. Jackson Purchase Energy is also authorized to perform the necessary renovations set forth in its application.
3. Jackson Purchase Energy shall notify the Commission prior to performing any additional purchases or renovations not expressly authorized by this Order.

4. Any deviation from the purchase approved by this Order shall be undertaken only with the prior approval of the Commission.

5. Jackson Purchase Energy shall furnish documentation of the total costs of this project, including the cost of construction and all other capitalized costs, together with, but not limited to, engineering, legal, and administrative expenses, within 60 days of the date of construction is substantially completed. Construction costs shall be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for electric utilities as prescribed by the Commission.

6. Jackson Purchase Energy shall file with the Commission a copy of the “as-built” drawings and a certified statement that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of the substantial completion of the construction certified herein.

7. Jackson Purchase Energy shall file with the Commission, within 10 days of receipt from the proper authority, copies of all required permits referenced in paragraph 18 of the application.

8. Any documents filed in the future pursuant to paragraphs 5, 6, and 7 herein shall reference this case number and shall be retained in the post-case correspondence file.

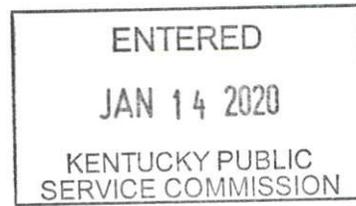
9. Jackson Purchase Energy’s request that the Commission find that KRS 278.218 does not apply to the sale of the existing headquarters is denied.

10. Jackson Purchase Energy will be required to submit an application to the Commission pursuant to KRS 278.218 as to the sale of the existing headquarters.

11. Jackson Purchase Energy's motion to submit the matter for a decision based on the existing record is granted.

12. This case is closed and removed from the Commission's docket.

By the Commission



ATTEST:

  
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