

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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|---------------------------------------|---|------------|
| APPLICATION OF SALT RIVER ELECTRIC |) | |
| COOPERATIVE CORPORATION FOR AN |) | |
| ORDER ISSUING A CERTIFICATE OF PUBLIC |) | CASE NO. |
| CONVENIENCE AND NECESSITY TO |) | 2019-00399 |
| CONSTRUCT AN ADVANCED METERING |) | |
| INFRASTRUCTURE SYSTEM (AMI) PURSUANT |) | |
| TO 807 KAR 5:001 AND KRS 278.020 |) | |

ORDER

On October 30, 2019, Salt River Electric Cooperative Corporation (Salt River RECC) filed an application requesting approval for a Certificate of Public Convenience and Necessity (CPCN) to upgrade its existing metering system. Salt River RECC proposes to install an Advanced Metering Infrastructure (AMI) system over a 48-month period.¹ The total estimated capital cost for the proposed AMI upgrade project is \$5,833,099.56.² According to Salt River RECC, the U.S. Department of Agriculture Rural Utility Services (RUS) approved a loan to finance the AMI system in conjunction with Salt River RECC's 2019-2022 construction work plan. Salt River RECC states that it will initially finance the proposed AMI project with internally generated funds and a short-term line of credit, and it will not draw on the RUS loan funds until needed, based upon cash flow and Salt River RECC's equity management policy.³

¹ Application, Exhibit 2.

² *Id.*, Appendix A.

³ *Id.*, paragraph 6; Salt River RECC's Response to Commission Staff's First Request for Information, Item 5.

An amended procedural Order was issued on December 20, 2019, establishing deadlines for intervention requests, two rounds of discovery, and a deadline to request a hearing or submit the matter for a decision based upon the evidentiary record. The Office of the Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General) is the only intervenor. On February 6, 2020, Salt River RECC filed a motion requesting that the matter be submitted for a decision based upon the record. On February 7, 2020, the Attorney General filed a motion requesting that a hearing be held, but subsequently filed notice of withdrawal of the request on February 11, 2020, stating that this matter could be submitted for a decision based upon the record. This matter now stands submitted for a decision.

BACKGROUND

Salt River RECC currently has in place a Power Line Carrier (PLC) AMR/AMI system from Landis+Gyr, consisting of solid state TS2 meters (50,674 single-phase and 1,102 poly-phase).⁴ The majority of the TS2 meters and portions of the infrastructure are more than ten years old.⁵ Salt River RECC's current system has limited two-way communication that is primarily used for performing disconnects and reconnects remotely.⁶ Salt River RECC began the conversion to a PLC system in 1998 and subsequently moved to the latest generation of that product.⁷

⁴ Application, Exhibit 2.

⁵ *Id.*

⁶ Salt River's response to Attorney General's First Request for Information, Item 6.

⁷ *Id.* at Item 12(a).

Salt River RECC states that it learned that Landis+Gyr's support for the PLC AMR/AMI system would end in 2020 and that replacement parts are sparsely available.⁸ In response, Salt River RECC initiated an investigation of other meter technology to determine the optimal solution for its metering needs.⁹ Salt River RECC met with five different vendors and determined that product development for PLC technology has stopped and that the shift in technology is toward Radio Frequency (RF).¹⁰ Salt River RECC then solicited proposals from Aclara, Landis+Gyr, Tantalus, Sensus, and Itron.¹¹ All five vendors submitted proposals to Salt River RECC. Salt River RECC evaluated the proposals based on overall cost, cost of infrastructure, recurring cost, functionality, compatibility with existing outage management system, customer information systems, and SCADA systems.¹² Salt River RECC's search focused on RF-based meter systems, which is a communication system that provides a number of benefits. These benefits include the ability to provide demand data in shorter intervals; automated outage reporting; timely disconnection of pre-pay customers; remote disconnect and reconnect; the ability to self-heal because the data can be delivered to an alternate communications path even when a portion of the system is down; and remote meter evaluation.¹³ Aclara

⁸ Application, Exhibit 2.

⁹ *Id.*

¹⁰ *Id.*

¹¹ *Id.*

¹² *Id.*

¹³ *Id.*

was selected as the vendor for meeting all of the previously listed criteria as well as being the lowest-cost provider.¹⁴

Salt River RECC states that the current TS2 meters and associated labor and materials are not fully depreciated, and the remaining balance is \$5,762,622.¹⁵ Salt River RECC has requested to accelerate depreciation of the TS2 metering system during the transition to the new Aclara meter system. Salt River RECC proposes to use a 15-year rate instead of the 25-year rate currently used. At the conclusion of the installation of the new metering system, Salt River RECC proposes to expense the remaining book value.¹⁶

DISCUSSION

Legal Standard

The Commission's standard of review of a request for a CPCN is well settled. 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 except as provided in KRS 278.020(1) and (2) and 807 KAR 5:001, Section 15(3), which are provisions not applicable to this matter. To obtain a CPCN, a utility must demonstrate a need for such facilities and an absence of wasteful duplication.¹⁷

"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.

¹⁴ *Id.*

¹⁵ Salt River RECC's Response to Commission Staff's First Request for Information, Item 8.

¹⁶ *Id.*

¹⁷ *Kentucky Utilities Co. v. Public Service Comm'n*, 252 S.W.2d 885 (Ky. 1952).

[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.¹⁸

“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.”¹⁹ To demonstrate that a proposed facility does not result in wasteful duplication, we have held that the applicant must demonstrate that a thorough review of all reasonable alternatives has been performed.²⁰ Selection of a proposal that ultimately costs more than an alternative does not necessarily result in wasteful duplication.²¹ All relevant factors must be balanced.²²

Findings: AMI System

The Commission notes that Landis+Gyr’s support for the PLC AMR/AMI system will end in 2020 and that replacement parts are sparsely available. The Commission also notes that the majority of Salt River RECC’s TS2 meters and portions of its infrastructure are more than ten years old. The Commission finds that Salt River RECC’s current

¹⁸ *Id.* at 890.

¹⁹ *Id.*

²⁰ Case No. 2005-00142, *Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for a Certificate of Public Convenience and Necessity for the Construction of Transmission Facilities in Jefferson, Bullitt, Meade, and Hardin Counties, Kentucky* (Ky. PSC Sept. 8, 2005).

²¹ See *Kentucky Utilities Co. v. Public Service Comm’n*, 390 S.W.2d 168, 175 (Ky. 1965). See also Case No. 2005-00089, *Application of East Kentucky Power Cooperative, Inc. for a Certificate of Public Convenience and Necessity for the Construction of a 138 kV Electric Transmission Line in Rowan County, Kentucky* (Ky. PSC Aug. 19, 2005), Final Order.

²² Case No. 2005-00089, *East Kentucky Power Cooperative, Inc.* (Ky. PSC Aug. 19, 2005), final Order at 6.

metering system is, or will soon be, obsolete. The Commission further finds that Salt River RECC has sufficiently demonstrated that there is a need to upgrade its existing meter system. We note that the evidence shows that Salt River RECC's current meter system consists of TS2 meters utilizing a PLC communication system. As with recent Commission decisions the Commission finds that TS2 meters will soon become obsolete given Landis+Gyr's decision to discontinue manufacturing and selling TS2 meters as of December 31, 2016, and that support for TS2 meters would eventually be discontinued by 2020.²³ In light of the fact that Salt River RECC's current metering system is obsolete, or will soon become obsolete, the utility has established a need to replace and upgrade its metering system in order to provide safe and reliable electric service to its customers. The Commission also finds that Salt River RECC has demonstrated that the proposed upgrade to the Aclara RF system is the most reasonable, least-cost alternative to address Salt River RECC's metering needs and is not a wasteful duplication of facilities. Salt River RECC solicited and evaluated proposals from Aclara, Landis+Gyr, Tantalus, Sensus, and Itron. Salt River RECC consulted with South Kentucky RECC, Fleming-Mason Energy Cooperative, Inc., Blue Grass Energy Cooperative Corporation, and Cumberland Valley Electric, Inc., and with other non-Kentucky utilities in Salt River RECC's evaluation of meter systems. Salt River RECC selected Aclara as the vendor because it met all of Salt River RECC's listed criteria as well as being the lowest-cost vendor.

Findings: Depreciation Schedule

²³ Case No. 2016-00077, *Licking Valley RECC*. See also Case No. 2018-00056, *Application of Cumberland Valley Electric, Inc. for Commission Approval for a Certificate of Public Convenience and Necessity to Install an Advanced Metering Infrastructure (AMI) System Pursuant to 807 KAR 5:001 and KRS 278.020* (Ky. PSC July 9, 2018).

There are two issues for which the Commission must render a decision: (1) whether Salt River RECC's proposal to accelerate the depreciation schedule for the existing TS2 meters is reasonable; and (2) whether the proposed 15-year depreciation schedule for the proposed AMI meters is reasonable.

Regarding its current meters, Salt River RECC is depreciating its TS2 meters on a 25-year depreciation schedule. Salt River RECC's proposal to accelerate its depreciation rates for meters from a 25-year life to a 15-year life is based on the fact that it will retire the existing TS2 metering system when the Aclara metering system is completely deployed. Depreciation is the assigning or allocating of the cost of a plant asset (other than land) to expense in the accounting periods that are within the asset's useful life. When the life of an asset is determined to be less than or more than the estimated life during the asset's life, an adjustment to the life and corresponding depreciation rate should be made. Here, Salt River RECC implemented at a 25-year depreciation rate when it installed the TS2 meters, apparently using the depreciation rate for analog meters rather than the 15-year depreciation rate which was more appropriate for advanced meters, such as the TS2.

Salt River RECC should have been cognizant of industry-accepted practices and requested to change the depreciation rate of the TS2 meters to 15 years, similar to other jurisdictional electric utilities.²⁴ Salt River RECC's lack of attention to industry standards can ultimately have an adverse effect on their members through higher rates or outdated

²⁴ Case No. 2012-0361 Application of Fleming-Mason Energy, Inc. for a Certificate of Public Convenience and Necessity to Install an Advanced Metering Infrastructure System (AMI) (PSC Oct. 11, 2012) p. 6, Case No. 2018-00056, Application of Cumberland Valley Electric, Inc. For Commission Approval For a Certificate of Public Convenience and Necessity to Install an Advanced Metering Infrastructure (AMI) System Pursuant to KRS 807 KAR 5:001 And KRS 278.020, (PSC July 9, 2018) and Case No. 2014-00376, Application of Kenergy Corp. for an Order issuing a Certificate of Convenience and Necessity to Install an Automated Metering and Infrastructure system, (Ky. PSC Feb. 24, 2015).

equipment. As a result of Salt River RECC's inattentiveness, it must write off between \$3 million and \$4 million in remaining book value for the TS2 meters. The fact that the life of the existing TS2 metering system is less than the 25-year useful life implemented when the TS2 meters were deployed warrants an adjustment to the depreciation rate in order to avoid having ratepayers bear the cost of depreciating one system that is no longer in operation at the same time as the cost of depreciating the proposed meter system. The Commission finds that acceleration of the depreciation rate is reasonable to the extent that it prevents ratepayers from bearing the cost of depreciating two meter systems at the same time and therefore should be approved. Salt River RECC shall expense the remaining undepreciated amount in the year of the completion of installation of the Aclara meter system.

Regarding the second issue, Salt River RECC's proposal to use a 15-year life for the Aclara meter system is based on the manufacturer's representations in the request for proposal. In addition, the Commission has approved a 15-year life for advanced meter systems for a number of Cooperatives.²⁵ Therefore, the Commission finds that a 15-year life for the Aclara meter system is reasonable and should be approved.

IT IS THEREFORE ORDERED that:

1. Salt River RECC's request for a CPCN to purchase and install an AMI system as described in its application is approved.
2. Salt River RECC's request to accelerate the depreciation of the TS2 meters and associated equipment and to expense the remaining balance in the year in which the AMI system installation is completed is approved.

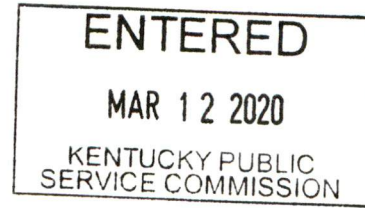
²⁵ *Id.*

3. Salt River RECC shall use a 15-year life for depreciating the Aclara metering system.

4. This matter is closed and removed from the Commission's docket.

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By the Commission



ATTEST:

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Executive Director

*Justin M. McNeil
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Lawrence W Cook
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Salt River Electric Cooperative Corp.
111 West Brashear Avenue
P. O. Box 609
Bardstown, KY 40004

*Tim J Sharp
Salt River Electric Cooperative Corp.
111 West Brashear Avenue
P. O. Box 609
Bardstown, KY 40004