

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC INVESTIGATION INTO THE)	
OPERATIONAL CAPACITY AND)	CASE NO.
INFRASTRUCTURE OF GRAYSON RURAL)	2020-00018
ELECTRIC COOPERATIVE CORPORATION)	

ORDER

The Commission, on its own motion, establishes this proceeding to conduct a formal investigation into the infrastructure engineering, facilities planning, construction, operation, and maintenance practices of Grayson Rural Electric Cooperative Corporation (Grayson RECC), pursuant to KRS 278.250, KRS 278.255, and KRS 278.260. This proceeding arises as a result of findings contained in a management audit of Grayson RECC filed in Case No. 2019-00101 that identified an excessive amount of management and operation deficiencies but, because of the scope of that audit, was not able to conduct a detailed review of Grayson RECC's infrastructure.¹

BACKGROUND

Grayson RECC is a non-profit member-owned rural electric cooperative corporation, organized under KRS Chapter 279. Grayson RECC is engaged in the distribution and sale of electric energy to 14,185 member-consumers in Carter, Elliott,

¹ Case No. 2019-00101, *Electronic Investigation into the Management and Operation of Grayson Rural Electric Cooperative Corporation* (Ky. PSC Feb. 27, 2020).

Greenup, Lawrence, Lewis, and Rowan counties, Kentucky.² Grayson RECC does not own any electric generating facilities but purchases its total power requirements from East Kentucky Power Cooperative, Inc.³

The Commission has had longstanding concerns about Grayson RECC's managerial capability regarding its infrastructure. In two consecutive rate cases,⁴ the Commission chastised Grayson RECC for its lack of sound judgment in its financial and operational decisions in light of Grayson RECC's poor financial condition. For example, Grayson RECC opted to reduce operating expenses instead of reducing the fees paid to and expenses incurred by its board of directors and the directors' spouses and family members.⁵ Grayson RECC's chief executive office and board chose to carry out cost-cutting measures that impacted Grayson RECC's infrastructure, thus jeopardizing its ability to provide adequate, safe, and reliable service to its customers, while preserving or increasing discretionary funding for employees, directors, directors' spouses and family members, and Grayson RECC's outside counsel.

² Annual Report of Grayson Rural Electric Cooperative Corporation to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2018 (filed May 13, 2019), at 33.

³ *Id.* at 40 and 43.

⁴ Case No. 2012-00426, *Application of Grayson Rural Electric Cooperative Corporation for an Adjustment of Rates* (Ky. PSC July 31, 2013) (Case No.2012-00426 Final Order); Case No. 2018-00272, *Application of Grayson Rural Electric Cooperative Corporation for an Adjustment of Rates* (Ky. PSC Mar. 28, 2019) (Case No. 2018-00272 Final Order).

⁵ Case No. 2012-00426, Final Order at 15.

Because Grayson RECC failed to address identified managerial deficiencies, on March 28, 2019, the Commission initiated an investigation and authorized a management audit of Grayson RECC.⁶

DISCUSSION

The management audit report filed in Case No. 2019-00101 proposed 20 recommendations, with three overall conclusions: 1) Grayson RECC should pursue merger opportunities; 2) Grayson RECC should implement all recommendations contained in the audit report; and 3) given that Grayson RECC's current chief executive officer is eligible for retirement, succession planning is critical, especially in light of the first two conclusions.

Most relevant here, the audit report urged that an investigation into Grayson RECC's infrastructure be initiated. As the management audit report stated:

A detailed review of Grayson's engineering, facilities planning, construction, and maintenance practices was beyond the scope of the management audit. In light of Grayson's recent history of management and financial issues, a further review of these areas may be warranted.⁷

Because of the limited scope of review regarding Grayson RECC's infrastructure in Case No. 2019-00101 and because of the longstanding concerns of the Commission regarding Grayson RECC's management and oversight of its infrastructure, and pursuant to the authority in KRS 278.250, KRS 278.255, and KRS 278.260, the Commission finds that an investigation into the infrastructure engineering, facilities planning, construction, operation, and maintenance practices of Grayson RECC is appropriate and should be

⁶ Case No. 2019-00101, *Electronic Investigation into the Management and Operation of Grayson Rural Electric Cooperative Corporation* (Ky. PSC Mar. 28, 2019).

⁷ Case No. 2019-00101, Management Audit Report (Ky. PSC Feb. 27, 2020) at p. 6.

performed. As part of this proceeding, the Commission will issue a request for proposal for an engineering audit of Grayson RECC. Further, the Commission reserves the right to examine all aspects of Grayson RECC's management and operation that impact Grayson RECC's infrastructure.

IT IS THEREFORE ORDERED that:

1. This proceeding is initiated to investigate and examine the operational capacity and the infrastructure of Grayson RECC.

2. The electronic filing procedures set forth in 807 KAR 5:001, Section 8, shall be used in the processing of this matter.

3. Pursuant to KRS 278.255, a competent, qualified, and independent firm shall be retained to perform a full and comprehensive audit of the infrastructure engineering, facilities planning, construction, operation, and maintenance practices of Grayson RECC.

4. Pursuant to KRS 278.255(3), Grayson RECC shall bear the cost of this audit.

5. Consistent with 807 KAR 5:013, Commission Staff shall take all actions necessary for the selection and retention of a competent, qualified and independent firm to conduct the audit of the infrastructure engineering, facilities planning, construction, operation, and maintenance practices of Grayson RECC.

6. Upon completion of the audit, Commission Staff shall file with the Commission a written report of the auditing firm's findings and conclusions and all documents that were assembled or produced as a result of the audit.

By the Commission

ENTERED
MAR 06 2020
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2020-00018

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