

# Goss ■ Samford PLLC



Attorneys at Law

**Mark David Goss**  
mdgoss@gosssamfordlaw.com  
(859) 368-7740

October 8, 2014

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OCT 08 2014

PUBLIC SERVICE  
COMMISSION

***Via Hand-Delivery***

Mr. Jeffrey Derouen  
Executive Director  
Kentucky Public Service Commission  
P.O. Box 615  
211 Sower Boulevard  
Frankfort, KY 40602

Re: In the Matter of: An Application of South Kentucky Rural Electric Cooperative Corporation for a Certificate of Public Convenience and Necessity to Construct a New Headquarters Facility and For Approval to Transfer Ownership of Certain Assets or, in the Alternative, a Determination That Such Approval is Unnecessary  
PSC Case No. 2014- 00355

Dear Mr. Derouen:

Enclosed please find for filing with the Commission in the above-referenced case one complete redacted original and ten (10) copies of South Kentucky Rural Electric Cooperative Corporation's (SKRECC) Application. In addition, enclosed for filing are an original and ten (10) copies of SKRECC's Motion for Confidential Treatment regarding the above-styled matter. Finally, enclosed for filing is one complete unredacted copy of SKRECC's Application under seal with certain Confidential Information highlighted. Please return a file-stamped copy of both the Application and Motion to me.

Do not hesitate to contact me if you have any questions.

Very truly yours,

Mark David Goss

Enclosures

M:\Clients\7100 - South Kentucky Rural Electric Coop Corp\1600 - Special Counsel\Correspondence\Ltr. to Jeff Derouen - 141008.docx

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE  
COMMISSION

IN THE MATTER OF:

AN APPLICATION OF SOUTH KENTUCKY )  
RURAL ELECTRIC COOPERATIVE )  
CORPORATION FOR A CERTIFICATE OF )  
PUBLIC CONVENIENCE AND NECESSITY )  
TO CONSTRUCT A NEW HEADQUARTERS )  
FACILITY AND FOR APPROVAL TO TRANSFER )  
OWNERSHIP OF CERTAIN ASSETS OR, IN )  
THE ALTERNATIVE, A DETERMINATION THAT )  
SUCH APPROVAL IS UNNECESSARY )

CASE NO. 2014-00355

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**MOTION FOR CONFIDENTIAL TREATMENT**

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Comes now South Kentucky Rural Electric Cooperative Corporation (“Applicant” or “SKRECC”), by and through counsel, pursuant to KRS 61.878, 807 KAR 5:001 Section 13, and other applicable law, and for its Motion requesting that the Kentucky Public Service Commission (“Commission”) afford confidential treatment to certain portions of SKRECC’s Application and related direct testimonies and exhibits filed in the above-captioned proceeding, respectfully states as follows:

1. SKRECC’s Application requests that the Commission issue a Certificate of Public Convenience and Necessity (“CPCN”) for the construction of a new headquarters facility (the “2014 Proposed Headquarters”) on approximately 30.2 acres of real estate located at the intersection of Parkers Mill Road and Somerset Boulevard (f/k/a Weddle Lane) in Somerset, Pulaski County, Kentucky (the “Somerset Houseboats Property”), which property is presently owned by Citizens National Bank of Somerset, Kentucky. SKRECC’s Application also requests

that the Commission approve Applicant's transfer of approximately 88 acres of real estate located on Norwood Road in north Somerset, Pulaski County, Kentucky (the "Northern Property") or, in the alternative, determine that no such approval is necessary. Finally, SKRECC's Application requests that Commission award the relief it requests on an expedited basis.

2. In its Application, SKRECC describes, *inter alia*, (i) the commercial real estate terms which are necessary to construct the 2014 Proposed Headquarters on the Sumereset Houseboats Property; and (ii) certain details related to its proposed transfer of the Northern Property (collectively, the "Confidential Real Estate Information"). Certain portions of the Direct Testimonies of Allen Anderson<sup>1</sup> and Michelle D. Herman<sup>2</sup> also contain Confidential Real Estate Information.

3. Also in support of its Application, SKRECC filed, *inter alia*, the Direct Testimony of Glen Ross, President of MSE of Kentucky, Inc.<sup>3</sup> Attached as Exhibit GR-2 to Mr. Ross' Direct Testimony is a construction cost estimate for the 2014 Proposed Headquarters. This exhibit contains detailed, line-item estimations for various construction costs related to the 2014 Proposed Headquarters (the "Confidential Construction Cost Information").

4. Both the Confidential Real Estate Information and the Confidential Construction Cost Information (collectively, the "Confidential Information") are proprietary and commercially sensitive information that are retained by SKRECC on a "need-to-know" basis and that are not publicly available. If disclosed, the Confidential Information would give potential bidders, vendors, contractors, and competitors of SKRECC a tremendous advantage in the course of

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<sup>1</sup> The Direct Testimony of Allen Anderson is attached to the Application as Exhibit 3.

<sup>2</sup> The Direct Testimony of Michelle D. Herrman is attached to the Application as Exhibit 4.

<sup>3</sup> The Direct Testimony of Glen Ross is attached to the Application as Exhibit 5.

ongoing and future negotiations to procure access to valuable real estate and construction services/materials. These market advantages would likely translate into higher costs for SKRECC and, by extension, detrimentally higher rates for SKRECC's customers. Thus, disclosure of the Confidential Information would be highly prejudicial to both SKRECC and its customers. Disclosure would also give participants in the broader commercial market a material, unfair advantage in relations with SKRECC as a result of knowing the values ascribed to the two (2) pieces of real estate which are essential to the entire project, the line-item estimations which SKRECC's architect has made for construction costs, the business strategies being implemented by SKRECC and other business-sensitive decisions and activities undertaken by SKRECC related to its pursuit of a new headquarters facility. These market advantages would again very likely translate into higher costs for SKRECC and, by extension, detrimentally higher rates for SKRECC's customers.

5. The Kentucky Open Records Act exempts the Confidential Information from public disclosure. *See* KRS 61.878(1)(c). As set forth above, disclosure of the Confidential Information would permit an unfair advantage to third parties. Moreover, the Kentucky Supreme Court has stated, "information concerning the inner workings of a corporation is 'generally accepted as confidential or proprietary.'" *Hoy v. Kentucky Industrial Revitalization Authority*, 907 S.W.2d 766, 768 (Ky. 1995). Because the Confidential Information is critical to SKRECC's effective execution of business decisions and strategy, it satisfies both the statutory and common law standards for affording confidential treatment.

6. SKRECC does not object to limited disclosure of the Confidential Information described herein, pursuant to an acceptable confidentiality and nondisclosure agreement, to



intervenors with a legitimate interest in reviewing same for the sole purpose of participating in this case.

7. In accordance with the provisions of 807 KAR 5:001 Section 13(2), SKRECC is filing one (1) unredacted copy of the Application, one (1) unredacted copy of both the Direct Testimony of Allen Anderson and the Direct Testimony Michelle D. Herrman, and one (1) unredacted copy of Exhibit GR-2 to the Direct Testimony of Glen Ross separately under seal with the Confidential Information highlighted. Redacted copies of the Application, the relevant Direct Testimonies and Exhibit GR-2 to the Direct Testimony of Glen Ross have been tendered to the Commission.

8. Also in accordance with the provisions of 807 KAR 5:001 Section 13(2), SKRECC respectfully requests that the Confidential Information be withheld from public disclosure for a period of at least two (2) years from the date of entry of an Order. This will ensure that the Confidential Information – if disclosed after that time – will be less likely to include information that continues to be commercially sensitive so as to impair the interests of SKRECC if publicly disclosed. However, SKRECC reserves the right to seek an extension of the grant of confidential treatment if it is necessary to do so at that time.

9. If and to the extent the Confidential Information becomes publically available or otherwise no longer warrants confidential treatment., SKRECC will notify the Commission and have its confidential status removed, pursuant to 807 KAR 5:001 Section 13(10).

WHEREFORE, on the basis of the foregoing, SKRECC respectfully requests that the Commission classify and protect as confidential the specific information described herein for a period of at least two (2) years from the date of entry of an Order.

Dated this 8<sup>th</sup> day of October, 2014.

Respectfully submitted,



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Mark David Goss  
David S. Samford  
M. Evan Buckley  
GOSS SAMFORD, PLLC  
2365 Harrodsburg Road, Suite B325  
Lexington, KY 40504  
(859) 368-7740  
mdgoss@gosssamfordlaw.com  
david@gosssamfordlaw.com  
ebuckley@gosssamfordlaw.com

*Counsel for South Kentucky Rural Electric  
Cooperative Corporation*

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IN THE MATTER OF:

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CASE NO. 2014-00355

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APPLICATION

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Comes now South Kentucky Rural Electric Cooperative Corporation (“Applicant” or “SKRECC”), by and through counsel, pursuant to KRS 278.020(1), KRS 278.218(1), 807 KAR 5:001 Sections 14 and 15, and other applicable law, and for its Application requesting that the Kentucky Public Service Commission (“Commission”) enter an Order (i) granting Applicant a Certificate of Public Convenience and Necessity (“CPCN”) to construct a new headquarters facility; (ii) approving Applicant’s transfer of ownership of certain assets or, in the alternative, determining that no such approval is necessary; and (iii) awarding Applicant the relief requested herein on an expedited basis, *to wit*, on or before March 15, 2015, Applicant respectfully pleads as follows:

## I. INTRODUCTION

1. Applicant is a distribution cooperative engaged in the sale of electric power at retail rates to approximately 66,537 members in Pulaski, Wayne, McCreary, Cumberland, Lincoln, Rockcastle, Casey, Russell, Laurel, Clinton, and Adair counties in Kentucky and Pickett and Scott counties in Tennessee. Applicant utilizes approximately 6,755 miles of distribution line for the delivery of power to its members and has 146 employees at present.

2. Pursuant to 807 KAR 5:001 Section 14(1), Applicant states that its mailing address is P.O. Box 910, Somerset, KY 42502, and its electronic mail address for purposes of this matter is [kypscinfo@skrecc.com](mailto:kypscinfo@skrecc.com).

3. Pursuant to 807 KAR 5:001 Section 14(2), Applicant states that it incorporated in the Commonwealth of Kentucky on October 13, 1938, and attests that it is currently in good standing.

## II. BACKGROUND

### A. Applicant's Existing Headquarters Facility

4. Applicant's existing headquarters facility (the "Existing Headquarters") sits upon approximately 9.75 acres of real estate located at 925-929 North Main Street, Somerset, Pulaski County, Kentucky 42501. The Existing Headquarters has approximately 90,825 sq. ft. of total operational area<sup>1</sup> and includes ten (10) buildings, two (2) of which were single-family residences that existed on adjoining lots originally purchased for future parking expansion but later converted for use as office and storage space.

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<sup>1</sup> The Existing Headquarters is comprised of approximately 27,035 sq. ft. of office space, 44,710 sq. ft. of warehouse/vehicle maintenance/covered area, a 2,850 sq. ft. community/training room, and 16,230 sq. ft. of cold storage/parking.



5. The Existing Headquarters was originally constructed in 1952 and has been renovated or expanded several times.<sup>2</sup> Applicant's annual cost to operate and maintain the Existing Headquarters is approximately \$285,000.

6. Due to the size, inefficiencies, design, and location of the Existing Headquarters, it cannot adequately satisfy the current and future needs of Applicant and the consumers Applicant serves. The issues associated with the Existing Headquarters that demonstrate its obsolescence for Applicant's unique purposes include, but are not limited to:

- The current facility was not designed to accommodate new technologies, developing privacy considerations, or efficiencies for SKRECC's purpose of use;
- For SKRECC's present use, the current facility does not comfortably accommodate individuals with certain physical limitations;
- For SKRECC's present use, the current facility lacks necessary and appropriate technological and design improvements;
- Ingress and egress present safety issues for visitors and employees;
- Customer parking is restrictive;
- Public restroom facilities are inadequate in some areas considering the high level of customer traffic inside of the building;
- Repeated building modifications have resulted in fragmented workspaces creating production, logistical, and administrative inefficiencies that impede SKRECC's ability to utilize the facility for its desired purpose; and
- Storage space and space for employee meetings, as well as space necessary to conduct private matters involving consumers where confidentiality is an important consideration, is inadequate.

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<sup>2</sup> By way of example, the Existing Headquarters has been renovated/expanded to accommodate a kitchen and auditorium (1957), a garage and billing room (1960), directors' and manager rooms (1964), a bookkeeping department (1969), member services' offices (1971), engineering offices (1976), additional dock space (1987), additional warehouse space (1989 and 1991), additional cashier and general office space (1989 and 1992), and additional garage bays (1998).

7. It is neither cost-effective nor feasible to sufficiently renovate, expand, and retrofit the Existing Headquarters to adequately satisfy the current and future needs of Applicant and the consumers Applicant serves.

**B. Applicant's Previous Pursuit of a New Headquarters Facility**

8. On September 5, 2008, Applicant filed with the Commission an application requesting a CPCN to construct a new headquarters facility (the "2008 Matter" and the "2008 Proposed Headquarters," respectively).<sup>3</sup>

9. The planned site of the 2008 Proposed Headquarters was on approximately 88 acres of real estate located on Norwood Road in north Somerset, Pulaski County, Kentucky (the "Northern Property"). Applicant acquired the various parcels that comprise the Northern Property between August, 2003, and February, 2004, with the intent that the site would serve as the location for a new headquarters facility. In total, and consistent with a contemporaneous appraisal, Applicant paid approximately \$1.206 million for the Northern Property.

10. The size of the 2008 Proposed Headquarters was originally projected at 134,112 sq. ft., and included an office building (46,060 sq. ft.), a warehouse (62,662 sq. ft.), and a covered fleet parking building (25,390 sq. ft.). The originally-estimated cost of the 2008 Proposed Headquarters was \$19.3 million, but was later revised to \$18.1 million.

11. By Order entered October 15, 2009 (the "October 15<sup>th</sup> Order"), the Commission denied without prejudice Applicant's request for a CPCN to construct the 2008 Proposed Headquarters. The Commission expressed concern that, due to its projected size and cost, the 2008 Proposed Headquarters would result in the wasteful duplication of facilities.

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<sup>3</sup> See Case No. 2008-00371, *In the Matter of the Application of South Kentucky Rural Electric Cooperative Corporation for a Certificate of Public Convenience and Necessity to Construct a New Headquarters Facility in Somerset, Kentucky*.

12. Although the Commission concluded in its October 15<sup>th</sup> Order that the 2008 Proposed Headquarters would result in an excessive investment, it also determined that Applicant had “demonstrated that its existing headquarters facility is inadequate and a new headquarters facility is needed.”<sup>4</sup> Thus, the Commission’s October 15<sup>th</sup> Order permitted Applicant to file a revised application in order to address the Commission’s concerns with the 2008 Proposed Headquarters.

13. On January 22, 2010, Applicant filed a revised application for a CPCN to construct a smaller and less costly new headquarters facility (the “2010 Proposed Headquarters”). The 2010 Proposed Headquarters represented an 11,800 sq. ft. and \$2.8 million reduction to the original size and cost of the 2008 Proposed Headquarters.<sup>5</sup>

14. By Order entered May 11, 2010 (the “May 11<sup>th</sup> Order”), the Commission granted Applicant’s request for a CPCN based on its revised application and approved an expenditure of up to \$15.3 million to construct the 2010 Proposed Headquarters.

15. Although a CPCN was granted in the 2008 Matter, the Commission noted that the 2010 Proposed Headquarters was “on the high end of what could be considered reasonable given the size and scope of the project compared to [Applicant’s] net plant investment,” and further stated that it would “closely scrutinize [Applicant’s] expenditures ... to ensure that only reasonable costs are placed into [Applicant’s] rate base.”

16. Primarily because of the substantial downturn in both the national and local economies during this time period, and because of those concerns articulated by the Commission

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<sup>4</sup> See October 15<sup>th</sup> Order, at p. 6. The Commission further concluded that, “[d]ue to the age of the current facility and the impracticality and physical limitations of renovating the existing facility, renovation is neither cost-effective nor feasible.” *Id.*

<sup>5</sup> The 2010 Proposed Headquarters was designed with a 60,862 sq. ft. warehouse building (1,800 sq. ft. smaller than the 2008 Proposed Headquarters) and a 15,390 sq. ft. parking facility (10,000 sq. ft. smaller than the 2008 Proposed Headquarters). No revision was made to the proposed office building and community/training room, which were to remain at a total of 46,060 sq. ft.

in its October 15<sup>th</sup> Order and May 11<sup>th</sup> Order, SKRECC did not move forward with construction of the 2010 Proposed Headquarters.

17. Pursuant to the terms of KRS 278.020(1), the authority conferred by the issuance of the CPCN in the Commission's May 11<sup>th</sup> Order is void due to the passage of time.

### III. THE PROJECT

18. Applicant proposes to construct a new headquarters facility (the "2014 Proposed Headquarters") that will adequately satisfy the current and future needs of Applicant and the consumers Applicant serves.

19. Because it provides a significantly more cost-effective and logistically feasible option than the Northern Property, Applicant intends to construct the 2014 Proposed Headquarters on approximately 30.2 acres of real estate located at the intersection of Parkers Mill Road and Somerset Boulevard (f/k/a Weddle Lane) in Somerset, Pulaski County, Kentucky (the "Somerset Houseboats Property"). The Somerset Houseboats Property was previously owned by Somerset Acquisition, LLC d/b/a Somerset Houseboats, and is presently owned by Citizens National Bank of Somerset, Kentucky ("Citizens").

20. [REDACTED]

21. In its current state, the Somerset Houseboats Property consists of developed real estate improved with a large manufacturing building (176,220 sq. ft.) and five (5) smaller buildings (8,690 sq. ft., 8,043 sq. ft., 1,873 sq. ft., 575 sq. ft., and 512 sq. ft., respectively).



Applicant intends to modify/remodel approximately 123,124 sq. ft. of the large manufacturing building to enable its use as warehouse, storage, operations, maintenance, and covered parking area. Applicant intends to demolish and remove the remaining 53,096 sq. ft. of the large manufacturing building (16,339 sq. ft. of which is open canopy) and replace same with a two (2) story, 37,064 sq. ft. office building and an uncovered parking area. Finally, Applicant intends to modify/remodel the five (5) existing, smaller buildings for use as vehicle maintenance, marketing storage, meter testing lab and storage, buildings and grounds storage and workshop, and fuel tank storage areas.

22. Applicant has employed MSE of Kentucky, Inc. (“MSE”), to serve as architect of the 2014 Proposed Headquarters. MSE estimates that the construction cost of the 2014 Proposed Headquarters, including architect’s fee, insurance, and contingency, will be \$10,226,718. In addition, Applicant estimates that items necessary to complete the 2014 Proposed Headquarters (including fuel tanks (\$75,000), a communications tower and related equipment (\$110,000), solar panels (\$60,000), LED lighting (\$30,000), furnishings (\$188,282), and legal expenses (\$10,000)) will cost \$473,282. Thus, [REDACTED]

[REDACTED] Applicant estimates that the 2014 Proposed Headquarters will cost \$10,700,000. [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED].<sup>6</sup>

23. Construction of the 2014 Proposed Headquarters will not have a substantial impact on Applicant’s overall financial condition or on the rates paid by its members. Further discussion of financial matters related to the 2014 Proposed Headquarters is contained in Section

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<sup>6</sup> This figure does not include the funds that Applicant may realize upon the sale of the Existing Headquarters.

VI of this Application and in the attached Direct Testimony of Michelle Herrman, Applicant's Vice President of Finance.<sup>7</sup>

#### IV. REQUEST FOR ISSUANCE OF A CPCN

24. Pursuant to KRS 278.020(1), Applicant requests that this Commission issue a CPCN for the construction of the 2014 Proposed Headquarters.

25. Pursuant to 807 KAR 5:001 Section 15(2)(a), Applicant states that the facts relied upon to show that construction of the 2014 Proposed Headquarters is required by public convenience or necessity are as follows: due to its size, inefficiencies, design, and location, the Existing Headquarters cannot adequately satisfy the current and future needs of Applicant and the consumers Applicant serves; it is neither cost-effective nor feasible to renovate, expand, and retrofit the Existing Headquarters to adequately satisfy the current and future needs of Applicant and the consumers Applicant serves; the 2014 Proposed Headquarters is not excessive in terms of investment or scope, and will not result in a wasteful duplication of facilities; and Applicant has thoroughly reviewed and considered alternatives to the 2014 Proposed Headquarters and determined that the 2014 Proposed Headquarters represents a reasonable, least-cost solution to Applicant's needs. The need for and reasonableness of the 2014 Proposed Headquarters is more fully described in the attached Direct Testimony of Allen Anderson, Applicant's President and Chief Executive Officer.<sup>8</sup>

26. Pursuant to 807 KAR 5:001 Section 15(2)(b), Applicant states that the permits needed to construct the 2014 Proposed Headquarters will be acquired by MSE and/or the contractors/subcontractors at the appropriate time and in accordance with relevant law.

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<sup>7</sup> See Section VIII, *infra*.

<sup>8</sup> See Section VIII, *infra*.

Applicant anticipates needing and obtaining a state and local building permit, HVAC permit, electrical permit, plumbing permit, and approval from the Kentucky Airport Zoning Commission and the Federal Aviation Administration for construction of the communications tower. Additionally, SKRECC intends to seek and obtain approval of its site development plan with the Somerset Planning Commission, and will submit a notice of intent (NOI) to the Kentucky Division of Water for control of storm water run off.

27. Pursuant to 807 KAR 5:001 Section 15(2)(c), Applicant states that a full description of the proposed location of the 2014 Proposed Headquarters, including a description of the manner in which the 2014 Proposed Headquarters will be constructed, is contained herein and in the attached Direct Testimony of Glen Ross, President of MSE.<sup>9</sup> Applicant further states that there are no public utilities, corporations, or persons with whom the 2014 Proposed Headquarters is likely to compete.

28. Pursuant to 807 KAR 5:001 Section 15(2)(d)(1), Applicant states that maps to suitable scale showing the proposed location of the 2014 Proposed Headquarters are attached.<sup>10</sup> Applicant further states that there are no like facilities owned by others located anywhere within the map area.

29. Pursuant to 807 KAR 5:001 Section 15(2)(d)(2), Applicant states that plans and specifications and drawings of the 2014 Proposed Headquarters are attached.<sup>11</sup>

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<sup>9</sup> See Section VIII, *infra*.

<sup>10</sup> Two (2) copies of the maps in paper medium are attached hereto and incorporated herein as Exhibit 1, and one (1) copy of the maps in portable document format on electronic storage medium is included with this filing.

<sup>11</sup> Two (2) copies of the plans and specifications and drawings are attached hereto and incorporated herein as Exhibit 2, and one (1) copy of the plans and specifications and drawings in portable document format on electronic storage medium is included with this filing.

30. Pursuant to 807 KAR 5:001 Section 15(2)(e), Applicant states that it intends to finance the entire 2014 Proposed Headquarters project by utilizing encumbered loan funds from the U.S. Department of Agriculture's Rural Utilities Service ("RUS"). Further discussion of the proposed financing of the 2014 Proposed Headquarters project is contained in Section VI of this Application and in the attached Direct Testimony of Michelle Herrman, Applicant's Vice President of Finance.<sup>12</sup>

31. Pursuant to 807 KAR 5:001 Section 15(2)(f), Applicant states that the estimated annual cost of operation of the 2014 Proposed Headquarters after it is placed into service will be \$993,454.

32. For all of the reasons stated above, construction of the 2014 Proposed Headquarters is necessary, is in the public interest, and will not result in wasteful duplication of facilities. The Commission is therefore respectfully requested to issue a CPCN to Applicant as set forth herein.

**V. REQUEST FOR APPROVAL TO TRANSFER OWNERSHIP OF ASSETS OR,  
IN THE ALTERNATIVE, A DETERMINATION THAT  
SUCH APPROVAL IS UNNECESSARY**

33. As described herein above, Applicant intends to transfer ownership of the Northern Property [REDACTED]

[REDACTED].

34. As further described herein above, the tracts that comprise the Northern Property were purchased by Applicant in 2003-2004 for the purpose of constructing thereupon a new headquarters facility. Applicant no longer intends to construct a new headquarters facility upon the Northern Property, and said property has not been developed, improved, or otherwise used.

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<sup>12</sup> See Section VIII, *infra*.



35. Pursuant to KRS 278.218(1), Commission approval is required prior to the transfer of ownership of certain assets owned by a utility. However, if a utility seeks to transfer ownership of a certain asset for the reason that said asset is obsolete, Commission approval is not required.<sup>13</sup>

36. Applicant requests that the Commission determine that its approval is not required prior to Applicant's transfer of the Northern Property [REDACTED]. The Northern Property is not in use and is no longer useful to Applicant, and is therefore obsolete.

37. Should the Commission determine that Applicant intends to transfer ownership of the Northern Property [REDACTED] for reasons other than obsolescence, Applicant requests that the Commission approve said transfer. Because the Northern Property is not being utilized by Applicant, and because [REDACTED], the proposed transaction is in accordance with law, is for a proper purpose, and is consistent with the public interest.

38. Based on the facts and law described herein, the Commission is respectfully requested to approve Applicant's transfer of the Northern Property or, in the alternative, determine that such approval is unnecessary.

## **VI. DESCRIPTION OF METHOD OF PROJECT FINANCING AND IMPACT ON OPERATIONS**

39. Applicant has available encumbered funds sufficient to finance the entire 2014 Proposed Headquarters from its approved RUS Loan Contract, Kentucky 54-BC8 Wayne, in conjunction with its 2010-2013 Work Plan approved by the Commission.<sup>14</sup> These funds are available for draw currently, and the funds drawn from RUS shall be from the Federal Financing

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<sup>13</sup> See KRS 278.218(1)(a).

<sup>14</sup> See Case No. 2010-00055, *Application of South Kentucky Rural Electric Cooperative Corporation for a Certificate of Convenience and Necessity to Construct Additional Lines and Facilities* (Ky. PSC June 24, 2010).

Bank ("FFB"). These funds are available to Applicant based on the published daily rates by RUS for its FFB Quarterly Rates. The final interest rate shall be determined on the date of draw, and the loan term shall be approximately 31 years with a maturity date of January 2, 2046.

40. In order to take advantage of the current low interest rates and to secure the debt service costs, Applicant has drawn \$10,000,000 of the needed funds at an interest rate of 2.87%, with a maturity date of January 2, 2046. The exact loan term length is determined on the date of the draw. The remainder of the needed funds will be drawn at a later date. In the event that the project is not approved by the Commission, these funds will be invested for future general operating needs.

41. Applicant has retained its long-standing rates and financial consultant, Jim Adkins, to prepare and analyze a 10 year financial forecast employing a base model without the project cost and a comparable model with the proposed project cost. The results of the forecast indicate that Applicant's current rate structure will not require adjustment due to the additional costs of the proposed project during the 10 year forecast period. While the annual margins will be less with the proposed project cost, Applicant will maintain positive margins and the margins will be sufficient to meet current lending requirements. Therefore, there is no projected increase in cost of power to the average member due to the project costs. A summary of the 10 year financial forecast is discussed in and attached as Exhibit MDH-1 to the Direct Testimony of Michelle Herrman, Applicant's Vice President of Finance.

**VII. REQUEST FOR RELIEF ON AN EXPEDITED BASIS**

42. [REDACTED]  
[REDACTED]  
[REDACTED]

[REDACTED]

[REDACTED]

43. Applicant requests that the relief prayed for herein be awarded by the Commission on an expedited basis, *to wit*, on or before March 15, 2015. Obtaining a decision from the Commission [REDACTED]

[REDACTED] will afford the parties sufficient time to finalize documentation and procedural details necessary to allow for construction bids to be awarded in time for a spring 2015 start date for the project.

44. Based on the facts described herein and the reasonable nature of the timeframe set forth by Applicant, the Commission is respectfully requested to award the relief for which Applicant prays on or before March 15, 2015.

**VIII. OVERVIEW OF TESTIMONY**

45. In support of this Application, Applicant is tendering the Direct Testimony of several witnesses, including:

a. Mr. Allen Anderson, Applicant's President and Chief Executive Officer, in which he offers testimony describing the condition and obsolescence for Applicant's unique purposes of the Existing Headquarters, the need and space requirements for the 2014 Proposed Headquarters, the reasons why the Northern Property is presently not the best option available for construction of the 2014 Proposed Headquarters, and the reasons why the construction of the 2014 Proposed Headquarters on the Somerset Houseboats Property is the most reasonable, least cost option for Applicant. Mr. Anderson's testimony is attached hereto as Exhibit 3 and incorporated herein by reference.

b. Ms. Michelle Herrman, Applicant's Vice President of Finance, in which she offers testimony describing the method by which Applicant will finance the 2014 Proposed

Headquarters, how Applicant arrived at estimated costs for several significant and necessary project expenditures, and the anticipated effect that the project will have on several of Applicant's key financial metrics. Ms. Herrman's testimony is attached hereto as Exhibit 4 and incorporated herein by reference.

c. Mr. Glen Ross, President of MSE, in which he offers testimony describing the process employed to determine space requirements and layout for the 2014 Proposed Headquarters, the method by which the various estimated cost components of the project were calculated, and construction and bidding details and related technical information. Mr. Ross' testimony is attached hereto as Exhibit 5 and incorporated herein by reference.

### **IX. CONCLUSION**

WHEREFORE, on the basis of the foregoing, Applicant respectfully requests that the Commission issue an Order:

(1) Pursuant to KRS 278.020, GRANTING to Applicant a Certificate of Public Convenience and Necessity to construct the 2014 Proposed Headquarters as described in this Application;

(2) Pursuant to KRS 278.218, APPROVING Applicant's transfer of ownership of the Northern Property or, in the alternative, DETERMINING that such approval is unnecessary;

(3) AWARDING the relief requested herein on an expedited basis no later than March 15, 2015; and

(4) AWARDING to Applicant such other or additional relief to which it may appear entitled.



VERIFICATION

The undersigned, pursuant to KRS 278.020(1), KRS 278.218(1), 807 KAR 5:001, Sections 14 and 15, and other applicable law, hereby verifies that all of the information contained in the foregoing Application is true and correct to the best of his knowledge, opinion and belief.

South Kentucky Rural Electric Cooperative Corporation

BY: Allen Anderson

ITS: President/CEO

COMMONWEALTH OF KENTUCKY )  
COUNTY OF Pulaski )

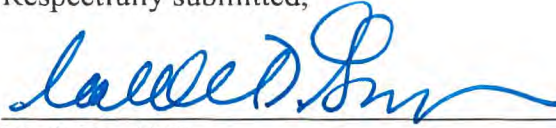
The foregoing Verification was signed, acknowledged and sworn to before me this 7<sup>th</sup> of October, 2014 by Allen Anderson of South Kentucky Rural Electric Cooperative Corporation, a Kentucky corporation, on behalf of the corporation.

Annex A. Acton

NOTARY PUBLIC, Notary # 515365

Dated this 8<sup>th</sup> day of October, 2014.

Respectfully submitted,



---

Mark David Goss  
David S. Samford  
M. Evan Buckley  
GOSS SAMFORD, PLLC  
2365 Harrodsburg Road, Suite B325  
Lexington, KY 40504  
(859) 368-7740  
mdgoss@gosssamfordlaw.com  
david@gosssamfordlaw.com  
ebuckley@gosssamfordlaw.com

*Counsel for South Kentucky Rural Electric  
Cooperative Corporation*

**APPENDIX**

**LIST OF EXHIBITS**

<b>Item</b>	<b>Exhibit</b>
Maps [per 807 KAR 5:001, Section 15(2)(d)(1)]	1
Plans and Specifications and Drawings [per 807 KAR 5:001, Section 15(2)(d)(2)]	2
Direct Testimony of Allen Anderson	3
Direct Testimony of Michelle D. Herrman	4
Summary of Ten Year Financial Forecast	MDH-1
Direct Testimony of Glen Ross	5
Comparison of Space Studies	GR-1
Construction Cost Estimate	GR-2
Project Schedule Timeline	GR-3







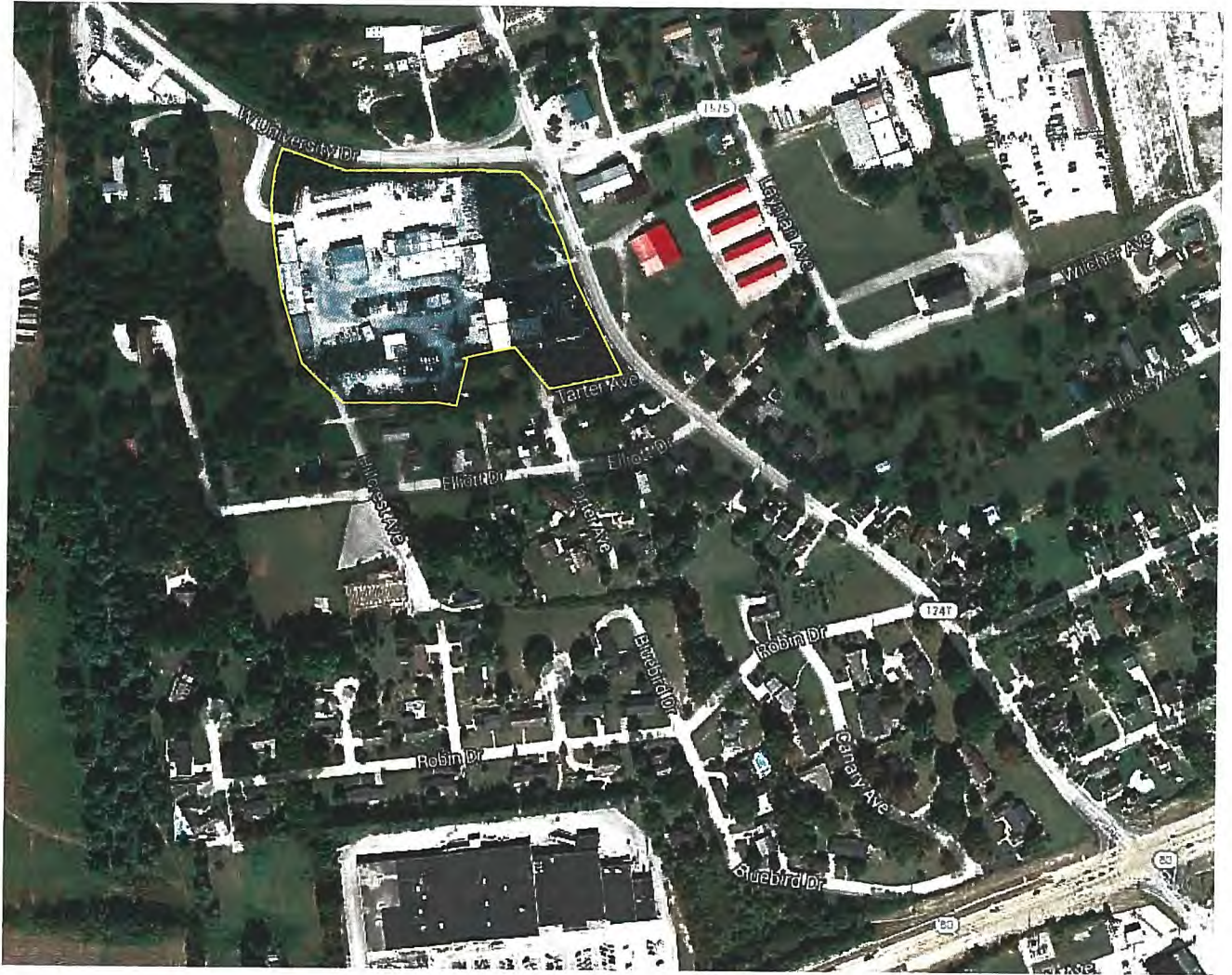
**South Kentucky RECC Properties  
(Pulaski Co.)  
Area Map**





**South Kentucky RECC  
(Pulaski Co.)  
Northern Property**





**South Kentucky RECC  
(Pulaski Co.)  
Existing Headquarters**





**South Kentucky RECC  
(Pulaski Co.)  
2014 Proposed Headquarters**





**South Kentucky RECC Properties  
(Pulaski Co.)  
Area Map**





**South Kentucky RECC  
(Pulaski Co.)  
Northern Property**





**South Kentucky RECC  
(Pulaski Co.)  
Existing Headquarters**





**South Kentucky RECC  
(Pulaski Co.)  
2014 Proposed Headquarters**







- ENGINEERING/SURVEY - 2,540 Sq.Ft.
- INFORMATION MANAGEMENT - 1,874 Sq.Ft.
- ENERGY/MARKETING - 1,296 Sq.Ft.
- DISPATCH - 2,296 Sq.Ft.
- CALL CENTER - 828 Sq.Ft.
- CASHIERS - 1,113 Sq.Ft.
- CUSTOMER SERVICE - 1,349 Sq.Ft.
- HUMAN RESOURCES - 816 Sq.Ft.
- MEMBER SERVICES - 475 Sq.Ft.
- COMMUNITY ROOM - 5,162 Sq.Ft.
- COMMON AREA - 10,140 Sq.Ft.

1ST FLOOR PLAN  
27,889 Sq. Ft.



OFFICE BUILDING  
1st FLOOR - 27,889 Sq.Ft.  
2nd FLOOR - 9,175 Sq.Ft.  
TOTAL 37,064 Sq.Ft.

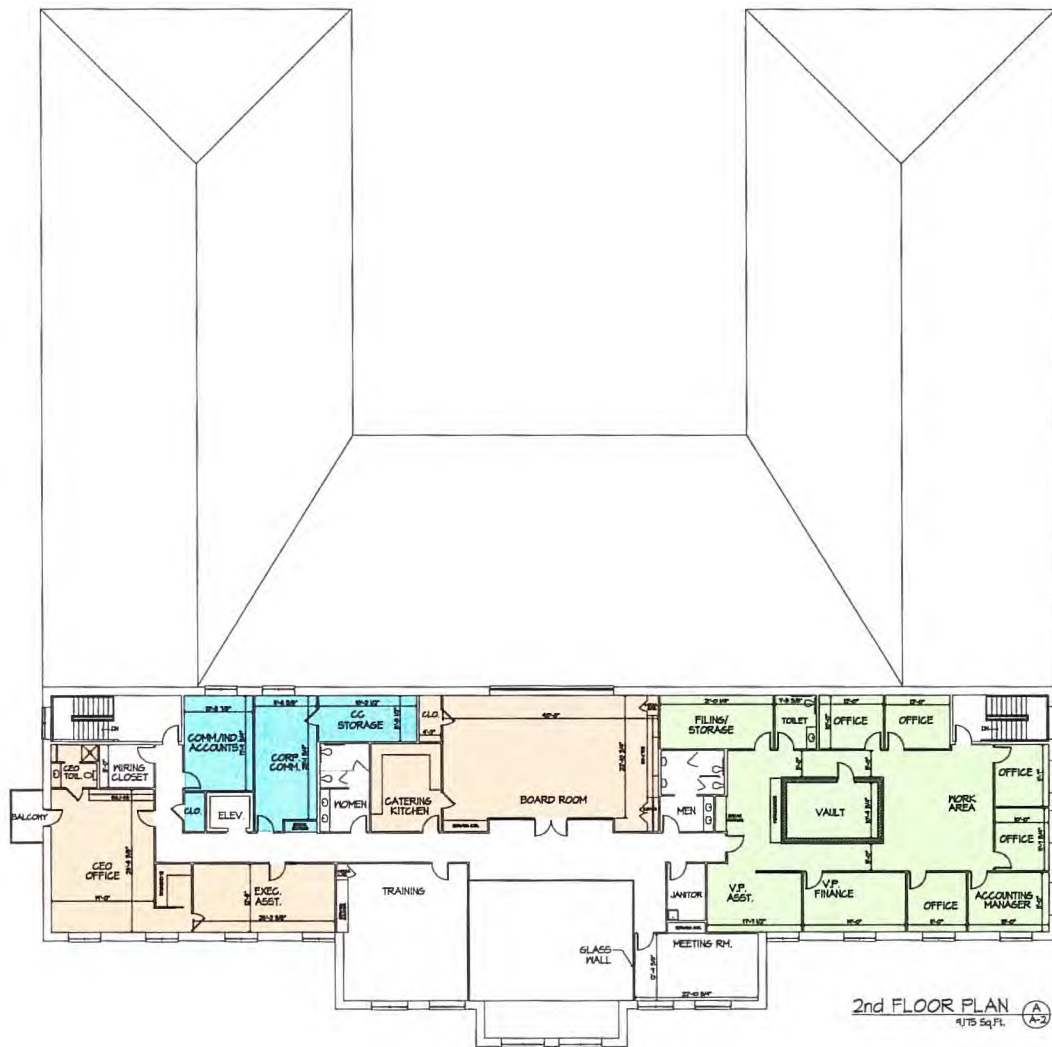
**SOUTH KENTUCKY RECC**  
SOMERSET, KENTUCKY

DATE	REVISION

PROJECT NO. 0924-13	DESIGNED BY BILL
DRAWN BY MSF	CHECKED BY MSF
DATE: SEPTEMBER 2014	REVIEWED BY
SCALE: AS NOTED	

Engineers  
Architects  
Planners  
**msf**  
OF KENTUCKY, INC.  
153 MILLERSBURG RD.  
Lexington, KY 40503  
Phone: (859)372-8624  
Fax: (859)321-2627  
www.msfa.com

DRAWING NO.
<b>A-1</b>
SHEET OF



- PRESIDENT & CEO - 2,217 Sq.Ft.
- FINANCE & ACCOUNTING - 2,646 Sq.Ft.
- CORPORATE COMMUNICATIONS & COMMERCIAL/INDUSTRIAL ACCOUNTS - 720 Sq.Ft.
- COMMON AREA - 3,592 Sq.Ft.

2nd FLOOR PLAN  
1/175 Sq.Ft. A-2



**SOUTH KENTUCKY RECC**  
SOMERSET, KENTUCKY

DATE	REVISION	BY

PROJECT NO. 0552-12  
DESIGNED BY BILL  
CHECKED BY MJE  
REVIEWED BY  
DATE: SEPTEMBER 2014  
SCALE: AS NOTED

151522/000/0002  
This drawing was prepared by the undersigned professional engineer or architect and is a true and correct copy of the original as shown on file in the office of the undersigned professional engineer or architect. It is not to be used for any other purpose without the written consent of the undersigned professional engineer or architect.

Engineers  
Architects  
Planners

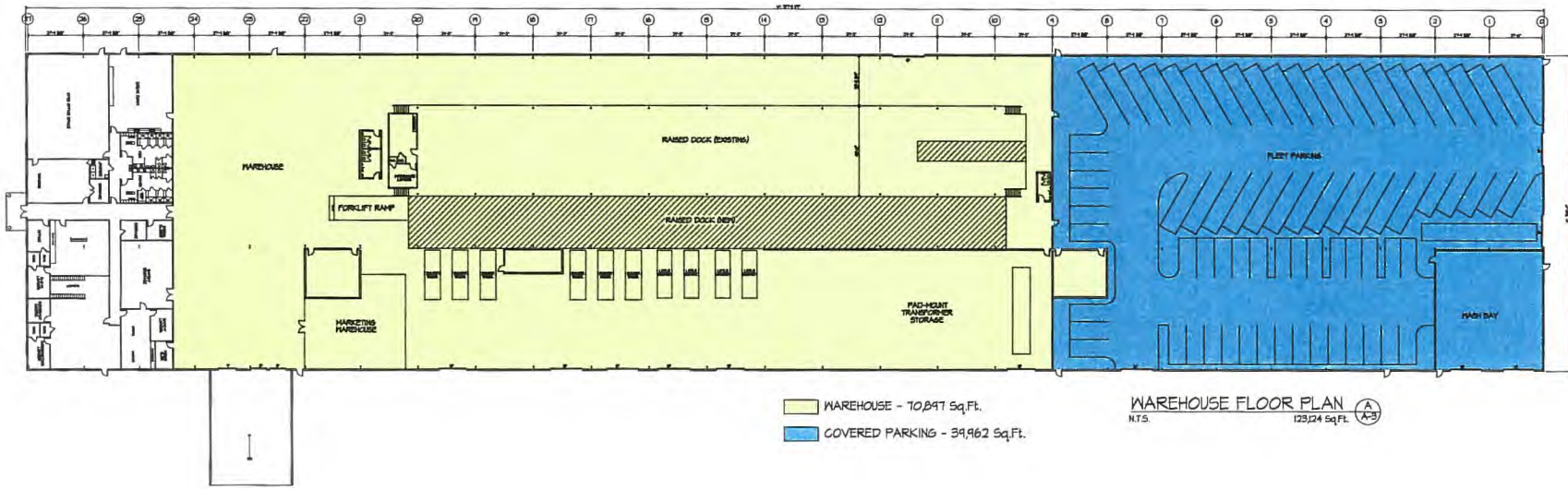
**nsc**  
OF KENTUCKY, INC.

214 Washington Way  
Somerset, Kentucky 40387  
Phone: (606) 222-5684  
Fax: (606) 222-2527  
www.nskinc.com

DRAWING NO.  
**A-2**

SHEET OF





- CONSTRUCTION - 1,905 Sq.Ft.
- RIGHT-OF-WAY - 1,043 Sq.Ft.
- SAFETY - 1,562 Sq.Ft.
- OPEN OFFICE SPACE - 2,155 Sq.Ft.
- TRAINING - 801 Sq.Ft.
- COMMON AREA - 4,247 Sq.Ft.

**SOUTH KENTUCKY RECC**  
SOMERSET, KENTUCKY

DATE	REVISION	BY

PROJECT NO. 0552-12	DESIGNED BY BLL
DRAWN BY NSF	CHECKED BY NSF
REVIEWED BY	DATE: SEPTEMBER 2014
SCALE: AS NOTED	SCALE: HAS NOTED

Engineers  
**NSF**  
 OF KENTUCKY, INC.  
 Phone: (606) 222-5524  
 624 Washington Valley Road  
 Somerset, KY 40387  
 Fax: (606) 222-5524  
 www.nsfinc.com

DRAWING NO.	<b>A-3</b>
SHEET	OF

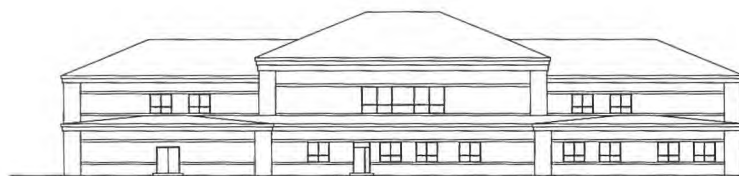




FRONT ELEVATION (A)  
A-4



RIGHT SIDE ELEVATION (B)  
A-4



REAR ELEVATION (C)  
A-4



LEFT SIDE ELEVATION (D)  
A-4

**SOUTH KENTUCKY RECC**  
SOMERSET, KENTUCKY

DATE	REVISION	BY

PROJECT NO. RECC-12  
 DESIGNED BY: BELL  
 CHECKED BY: TALLE  
 DRAWN BY: TALLE  
 REVIEWED BY: TALLE  
 DATE: JANUARY 2014  
 SCALE: AS NOTED

**msc**  
OF KENTUCKY, INC.

Engineers  
Architects  
Planners

Phone: (859)222-5184  
Fax: (859)222-2187  
624 Washington Way  
Somerset, KY 40387  
www.mscinc.com



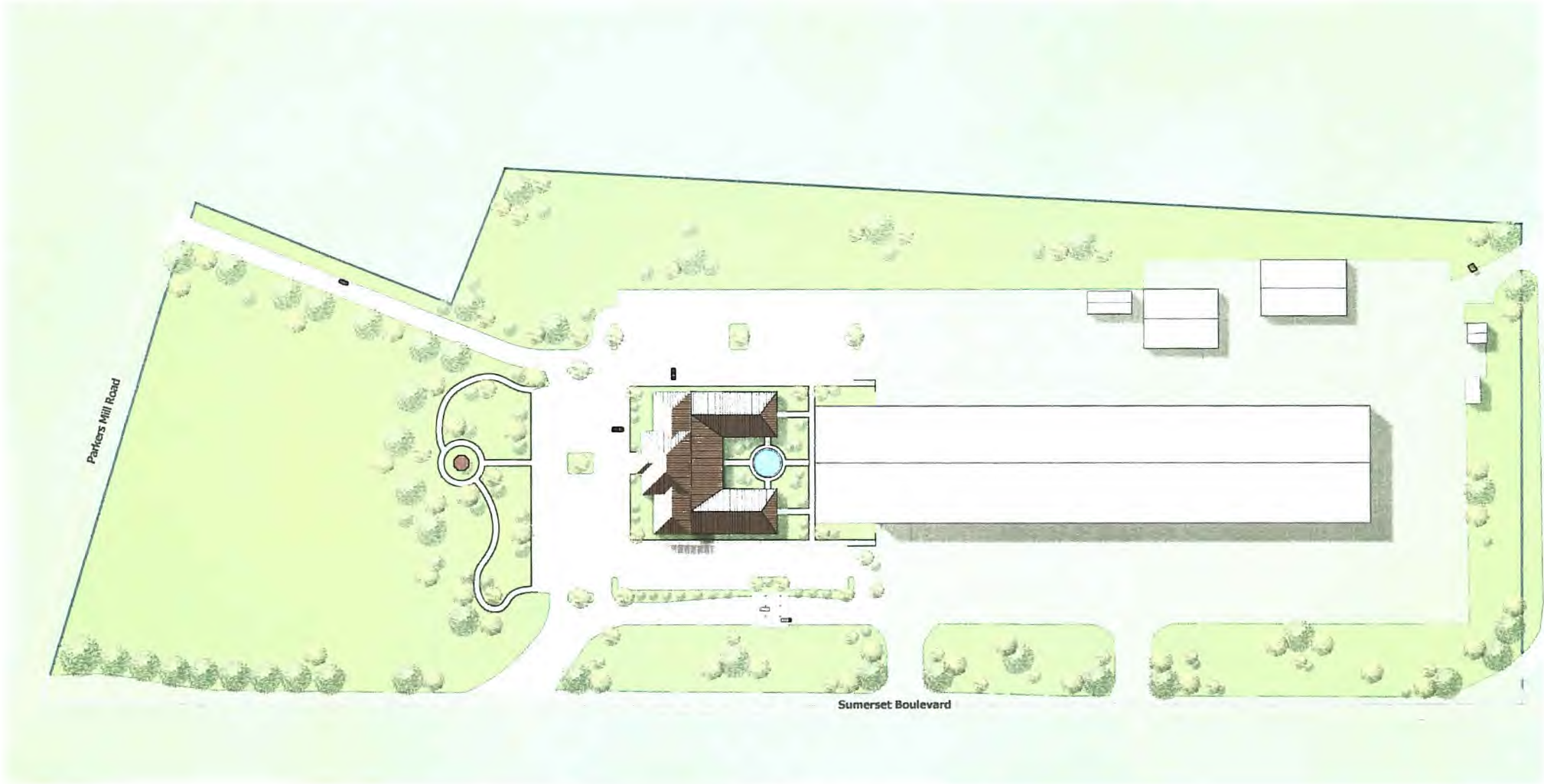
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SHEET OF

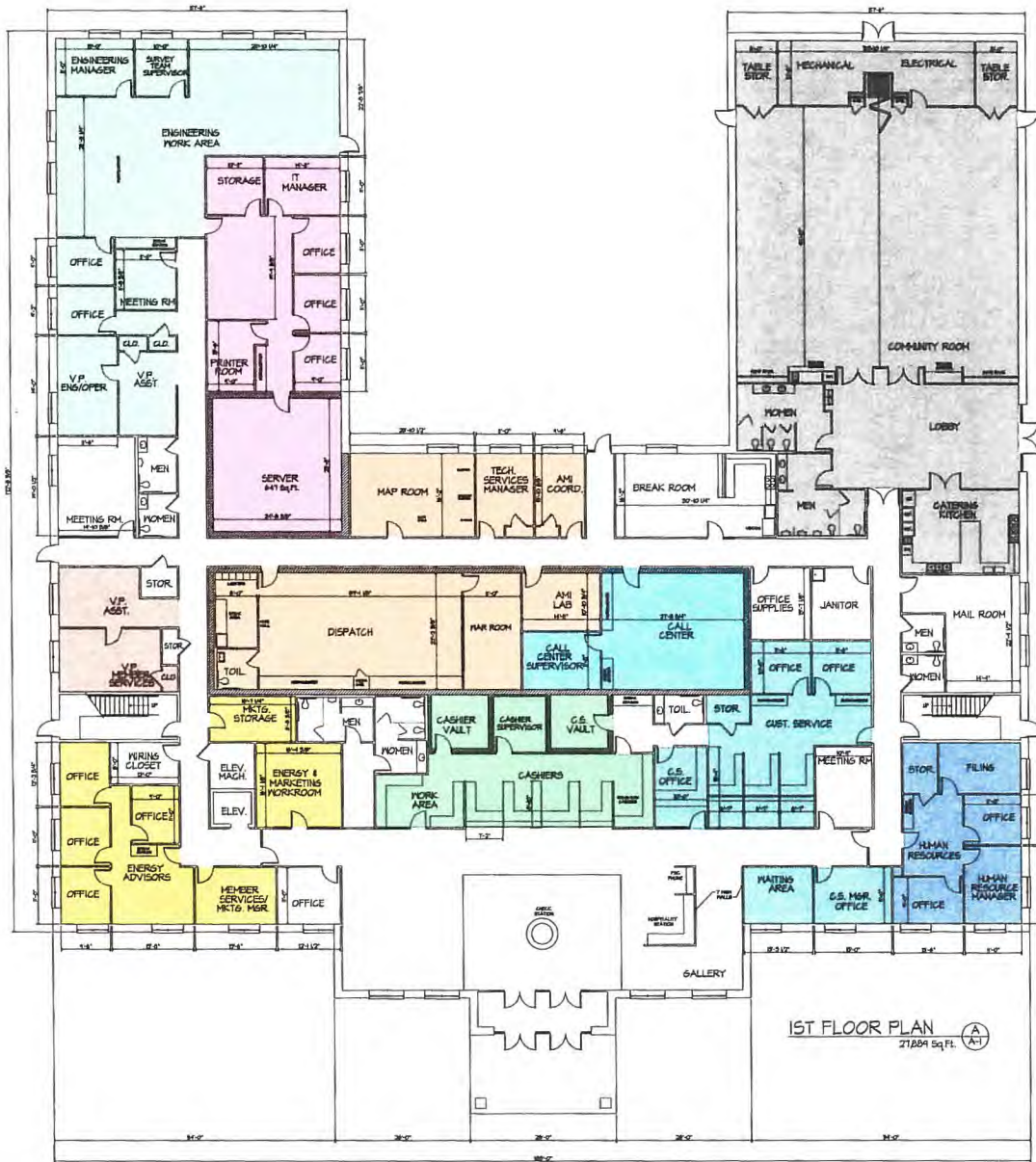


# South Kentucky RECC

Somerset, Kentucky



## Conceptual Site Rendering



1ST FLOOR PLAN  
27,889 Sq. Ft.

- ENGINEERING/SURVEY - 2,540 Sq.Ft.
- INFORMATION MANAGEMENT - 1,874 Sq.Ft.
- ENERGY/MARKETING - 1,296 Sq.Ft.
- DISPATCH - 2,296 Sq.Ft.
- CALL CENTER - 828 Sq.Ft.
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- CUSTOMER SERVICE - 1,349 Sq.Ft.
- HUMAN RESOURCES - 816 Sq.Ft.
- MEMBER SERVICES - 475 Sq.Ft.
- COMMUNITY ROOM - 5,162 Sq.Ft.
- COMMON AREA - 10,140 Sq.Ft.



**OFFICE BUILDING**  
 1st FLOOR - 27,889 Sq.Ft.  
 2nd FLOOR - 9,175 Sq.Ft.  
 TOTAL 37,064 Sq.Ft.

**SOUTH KENTUCKY RECC**  
SOMERBET, KENTUCKY

DATE	REVISION

PROJECT NO. 0522-02  
 DESIGNED BY: BELL  
 DRAWN BY: BELL  
 CHECKED BY: BELL  
 REVISIONS BY: BELL  
 DATE: SEPTEMBER 2014  
 SCALE: AS NOTED

Engineers  
 Architects  
 Planners

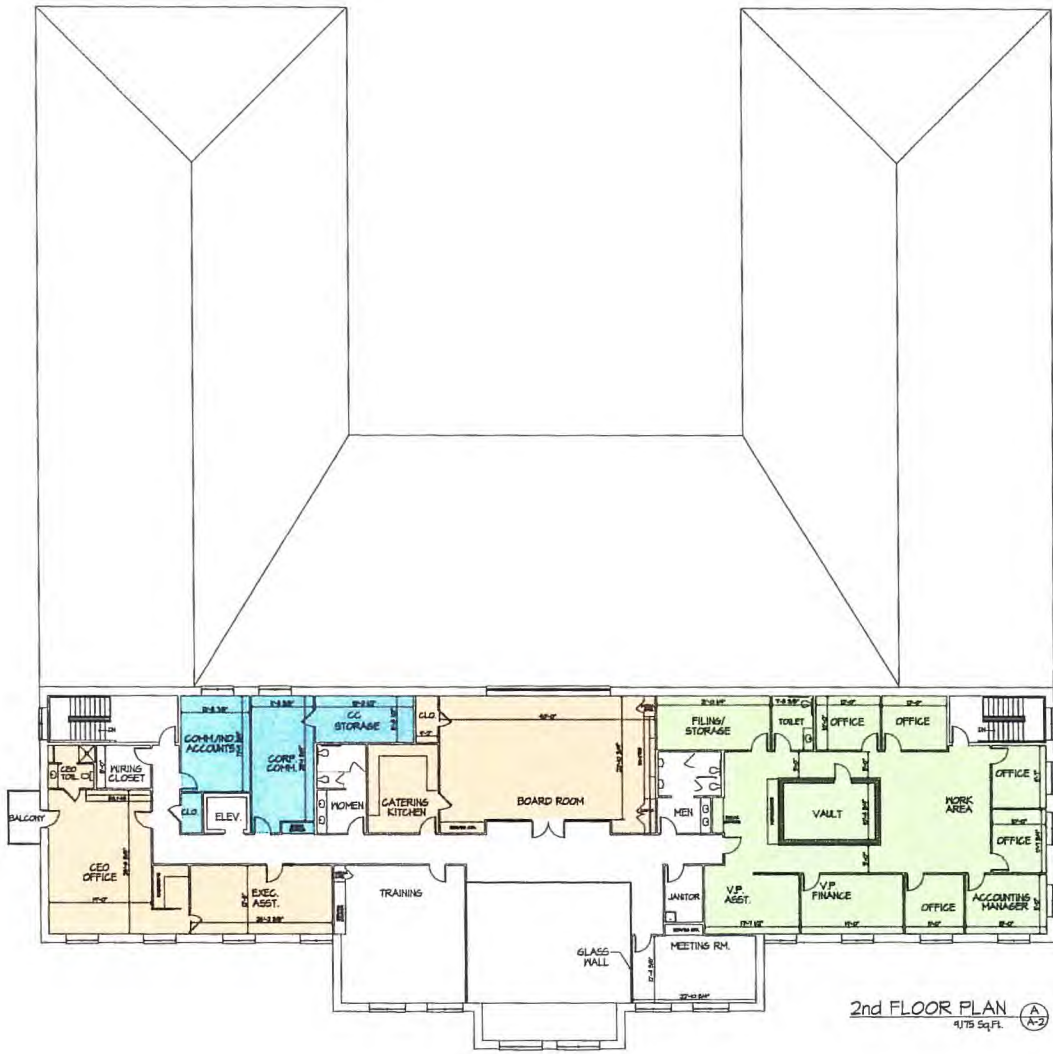
**msc**  
 OF KENTUCKY, INC.

Phone: (606) 223-5844  
 624 Washington Way  
 Lexington, KY 40503  
 Fax: (606) 223-2407

DRAWING NO.  
**A-1**

SHEET OF





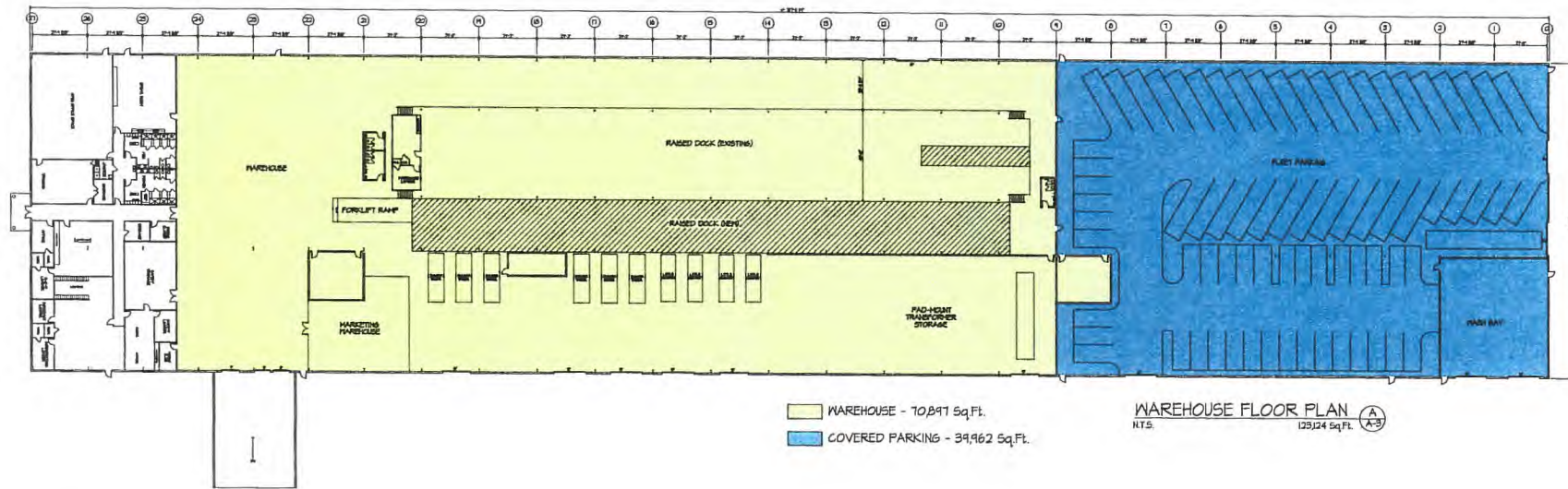
2nd FLOOR PLAN  
4175 Sq.Ft. A-2

- PRESIDENT & CEO - 2,217 Sq.Ft.
- FINANCE & ACCOUNTING - 2,646 Sq.Ft.
- CORPORATE COMMUNICATIONS & COMMERCIAL/INDUSTRIAL ACCOUNTS - 720 Sq.Ft.
- COMMON AREA - 3,592 Sq.Ft.



<b>SOUTH KENTUCKY RECC</b> SOMERSET, KENTUCKY															
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td>PROJECT NO.</td> <td>1952-12</td> </tr> <tr> <td>DESIGNED BY</td> <td>BLL</td> </tr> <tr> <td>DRAWN BY</td> <td>BLL</td> </tr> <tr> <td>CHECKED BY</td> <td>MEF</td> </tr> <tr> <td>REVIEWED BY</td> <td></td> </tr> <tr> <td>DATE</td> <td>SEPTEMBER 2014</td> </tr> <tr> <td>SCALE</td> <td>AS NOTED</td> </tr> </table>	PROJECT NO.	1952-12	DESIGNED BY	BLL	DRAWN BY	BLL	CHECKED BY	MEF	REVIEWED BY		DATE	SEPTEMBER 2014	SCALE	AS NOTED	<p>DATE: _____ BY: _____</p> <p>REVISION: _____</p> <p>DATE: _____ BY: _____</p> <p>REVISION: _____</p> <p>DATE: _____ BY: _____</p> <p>REVISION: _____</p> <p>DATE: _____ BY: _____</p> <p>REVISION: _____</p> <p>DATE: _____ BY: _____</p> <p>REVISION: _____</p> <p>DATE: _____ BY: _____</p> <p>REVISION: _____</p>
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DESIGNED BY	BLL														
DRAWN BY	BLL														
CHECKED BY	MEF														
REVIEWED BY															
DATE	SEPTEMBER 2014														
SCALE	AS NOTED														
<p><b>Engineers Architects Planners</b></p> <p><b>OF KENTUCKY, INC.</b></p> <p>824 Washington Way Lexington, KY 40504 www.mseinc.com</p> <p>Phone: (606) 253-8888 Fax: (606) 253-4397</p>															
DRAWING NO.															
<b>A-2</b>															
SHEET OF															





**SOUTH KENTUCKY RECC**  
SOMERSET, KENTUCKY

PROJECT NO.	1052-12
DESIGNED BY	BLL
DRAWN BY	WSP
REVIEWED BY	JSP
DATE	SEPTEMBER 2014
SCALE	AS NOTED
DATE	REVISION
BY	

1052-1202040001-12  
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**nse**  
OF KENTUCKY, INC.  
Engineers  
Architects  
Planners

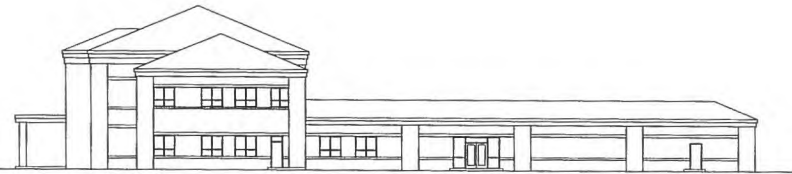
824 Washington Way  
Lexington, KY 40503  
Phone: (606) 222-5584  
Fax: (606) 222-2127



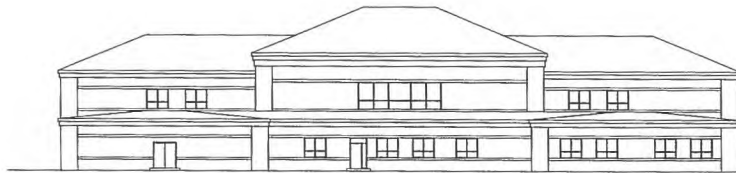
DRAWING NO.  
**A-3**  
SHEET OF



FRONT ELEVATION (A)  
A-1



RIGHT SIDE ELEVATION (B)  
A-1



REAR ELEVATION (C)  
A-1



LEFT SIDE ELEVATION (D)  
A-1

**SOUTH KENTUCKY RECC**  
SOMERSET, KENTUCKY

DATE	REVISION	BY

PROJECT NO. 18524-12  
DESIGNED BY: BELL  
DRAWN BY: BELL  
CHECKED BY: HSF  
REVIEWED BY: HSF  
DATE: AUGUST 2018  
SCALE: AS NOTED

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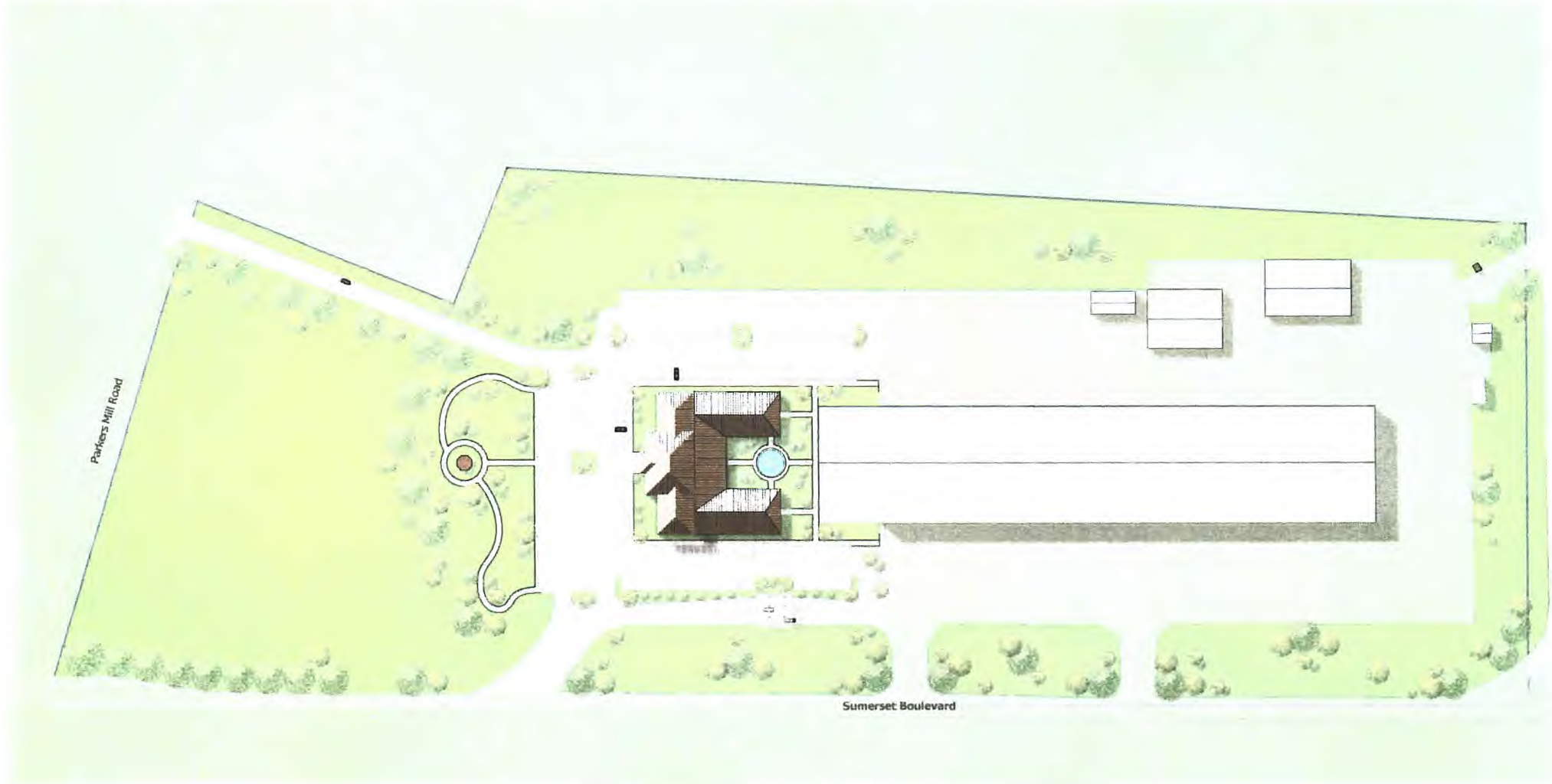
**MSC**  
**OF KENTUCKY, INC.**  
Engineers  
Architects  
Planners  
817 Winchester Mall  
Lexington, KY 40523  
Phone: (853) 222-6484  
Fax: (853) 222-2657  
www.msc-ky.com

**SK** South Kentucky  
**RECC**

DRAWING NO.  
**A-4**  
SHEET OF

# South Kentucky RECC

Somerset, Kentucky



Conceptual Site Rendering





**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**IN THE MATTER OF:**

**AN APPLICATION OF SOUTH KENTUCKY )  
RURAL ELECTRIC COOPERATIVE )  
CORPORATION FOR A CERTIFICATE OF )  
PUBLIC CONVENIENCE AND NECESSITY )  
TO CONSTRUCT A NEW HEADQUARTERS )  
FACILITY AND FOR APPROVAL TO TRANSFER )  
OWNERSHIP OF CERTAIN ASSETS OR, IN )  
THE ALTERNATIVE, A DETERMINATION THAT )  
SUCH APPROVAL IS UNNECESSARY )**

**CASE NO. \_\_\_\_\_**

---

**DIRECT TESTIMONY OF ALLEN ANDERSON  
ON BEHALF OF  
SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION**

---

**Filed: October 8, 2014**

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**  
2 **OCCUPATION.**

3 A. My name is Allen Anderson and my business address is South Kentucky Rural  
4 Electric Cooperative Corporation ("SKRECC" or "Applicant"), 925 N. Main St.,  
5 Somerset, Kentucky 42503. I am President and Chief Executive Officer at  
6 SKRECC.

7 **Q. PLEASE STATE YOUR EDUCATION AND PROFESSIONAL**  
8 **EXPERIENCE.**

9 A. I hold a Bachelor of Science Degree in Agriculture from Berea College where I  
10 graduated in 1976. I was hired at SKRECC in 1978, nearly 36 years ago, as an  
11 Energy Conservation Advisor. I was promoted to Manager of Member Services  
12 in 1985. In 2000, I was promoted to Chief Operating Officer, and was  
13 subsequently promoted to President & CEO in 2001. I have been a certified  
14 electrical inspector since 1984 and I am a licensed master electrician.

15 **Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR DUTIES AT**  
16 **SKRECC.**

17 A. As President and CEO, I am responsible for the management and oversight of all  
18 the cooperative's business operations, its employees, and public and community  
19 relations. I work under the supervision and at the pleasure of a seven member  
20 Board of Directors. My duties also include assisting the Board of Directors in  
21 developing a strategic plan, creating a mission and vision statement for the  
22 organization, and ensuring that the organization moves forward as directed by the  
23 Board of Directors.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
2 **PROCEEDING?**

3 A. The purpose of my testimony is to describe the condition of SKRECC's current  
4 headquarters facility (the "Existing Headquarters") and why it no longer meets  
5 SKRECC's needs; to describe SKRECC's previous pursuit of a new headquarters  
6 facility; to describe the need and space requirements for the new headquarters  
7 facility that SKRECC proposes to construct (the "2014 Proposed Headquarters");  
8 to describe the reasons why the Northern Property (as that term is later defined  
9 herein) is no longer being considered for construction of the 2014 Proposed  
10 Headquarters; to describe the reasons why the construction of the 2014 Proposed  
11 Headquarters on the Somerset Houseboats Property (as that term is later defined  
12 herein) is the most reasonable, least cost option for Applicant; and, finally, to  
13 describe the advantages to SKRECC's members of construction the 2014  
14 Proposed Headquarters.

15 **Q. ARE YOU SPONSORING ANY EXHIBITS?**

16 A. No.

17 **Q. PLEASE GENERALLY DESCRIBE THE BUSINESS OPERATIONS OF**  
18 **SKRECC.**

19 A. SKRECC is engaged in the sale of electric power at retail rates to approximately  
20 66,537 members in Pulaski, Wayne, McCreary, Cumberland, Lincoln, Rockcastle,  
21 Casey, Russell, Laurel, Clinton, and Adair counties in Kentucky and Pickett and  
22 Scott counties in Tennessee. SKRECC utilizes approximately 6,755 miles of



1 distribution line for the delivery of power to its members and has 146 employees  
2 at present.

3 **Q. WHERE IS SKRECC'S EXISTING HEADQUARTERS LOCATED?**

4 A. SKRECC's Existing Headquarters sits upon approximately 9.75 acres of real  
5 estate located at 925-929 North Main Street, Somerset, Pulaski County, Kentucky  
6 42501.

7 **Q. WHAT IS THE APPROXIMATE SQUARE FOOTAGE OF THE**  
8 **EXISTING HEADQUARTERS?**

9 A. The Existing Headquarters has approximately 90,825 sq. ft. of total operational  
10 area. Of this amount, approximately 27,035 sq. ft. is dedicated to office space,  
11 44,710 sq. ft. to warehouse/vehicle maintenance/covered area, 2,850 sq. ft. to a  
12 community/training room, and 16,230 sq. ft. to cold storage/parking.

13 **Q. WHEN WAS THE EXISTING HEADQUARTERS CONSTRUCTED?**

14 A. The Existing Headquarters was originally constructed in 1952 and has been  
15 renovated or expanded several times. By way of example, the Existing  
16 Headquarters has been renovated/expanded to accommodate a kitchen and  
17 auditorium (1957), a garage and billing room (1960), directors' and manager  
18 rooms (1964), a bookkeeping department (1969), member services' offices  
19 (1971), engineering offices (1976), additional dock space (1987), additional  
20 warehouse space (1989 and 1991), additional cashier and general office space  
21 (1989 and 1992), and additional garage bays (1998). Currently, the Existing  
22 Headquarters includes ten (10) buildings, two (2) of which were single-family

1 residences that existed on adjoining lots originally purchased for future parking  
2 expansion but later converted for use as office and storage space.

3 **Q. CAN THE EXISTING HEADQUARTERS ADEQUATELY SATISFY THE**  
4 **CURRENT AND FUTURE NEEDS OF SKRECC AND THE CONSUMERS**  
5 **SKRECC SERVES?**

6 A. No. Due to the size, inefficiencies, design, and location of the Existing  
7 Headquarters, it cannot adequately satisfy the current and future needs of  
8 SKRECC and the consumers SKRECC serves.

9 **Q. PLEASE DESCRIBE IN DETAIL WHY THE EXISTING**  
10 **HEADQUARTERS IS INADEQUATE.**

11 A. The issues associated with the Existing Headquarters that demonstrate why it does  
12 not satisfy SKRECC's current and future needs include, but are not limited to, the  
13 following:

- 14 • Multiple areas (including office, warehousing, maintenance, and storage  
15 areas) have been constructed and expanded on numerous occasions to  
16 accommodate SKRECC's growth, a fact which has resulted in insufficient  
17 available space at the Existing Headquarters site to efficiently conduct  
18 current operations or plan for future expansion;
- 19 • For SKRECC's present use, the current facility does not comfortably  
20 accommodate individuals with certain physical limitations;
- 21 • The current facility was not designed to accommodate new technologies,  
22 developing privacy considerations, or efficiencies for SKRECC's purpose  
23 of use;

- 1 • Ingress and egress present safety issues for visitors and employees;
- 2 • Customer parking is restrictive;
- 3 • Public restroom facilities are inadequate in some areas considering the
- 4 high level of customer traffic inside of the building;
- 5 • Repeated building modifications have resulted in fragmented workspaces
- 6 creating production, logistical, and administrative inefficiencies that
- 7 impede SKRECC's ability to utilize the facility for its desired purpose;
- 8 and
- 9 • Storage space and space for employee meetings, as well as space
- 10 necessary to conduct private matters involving members where
- 11 confidentiality is an important consideration, is less than desirable.

12 **Q. IS IT FEASIBLE FOR SKRECC TO RENOVATE, EXPAND, AND/OR**  
13 **RETROFIT THE EXISTING HEADQUARTERS TO ENABLE ITS**  
14 **CONTINUED USE?**

15 A. No. Although, as previously discussed, the Existing Headquarters has been  
16 renovated and expanded numerous times throughout its 60+ year history, its  
17 current location, footprint, available acreage, and design cannot reasonably  
18 accommodate further renovation or expansion. It is neither cost-effective nor  
19 feasible to sufficiently renovate, expand, and retrofit the Existing Headquarters to  
20 adequately satisfy the current and future needs of Applicant and the consumers  
21 Applicant serves.



1    **Q.    HAS SKRECC PREVIOUSLY SOUGHT THE APPROVAL OF THE**  
2           **KENTUCKY PUBLIC SERVICE COMMISSION TO CONSTRUCT A**  
3           **NEW HEADQUARTERS FACILITY?**

4    A.    Yes.  On September 5, 2008, SKRECC filed with the Kentucky Public Service  
5           Commission (the “Commission”) an application requesting a Certificate of Public  
6           Convenience and Necessity (“CPCN”) to construct a new headquarters facility  
7           (the “2008 Proposed Headquarters”).  That case was styled *In the Matter of the*  
8           *Application of South Kentucky Rural Electric Cooperative Corporation for a*  
9           *Certificate of Public Convenience and Necessity to Construct a New*  
10          *Headquarters Facility in Somerset, Kentucky*, and was assigned Case No. 2008-  
11          00371 (the “2008 Matter”).

12   **Q.    WHERE DID SKRECC PROPOSE TO CONSTRUCT TO 2008**  
13          **PROPOSED HEADQUARTERS?**

14   A.    The planned site of the 2008 Proposed Headquarters was on approximately 88  
15          acres of real estate located on Norwood Road in north Somerset, Pulaski County,  
16          Kentucky (the “Northern Property”).  SKRECC acquired the various parcels that  
17          comprise the Northern Property between August, 2003, and February, 2004, with  
18          the intent that the site would serve as the location for a new headquarters facility.  
19          This site was chosen out of the ten sites considered during SKRECC’s previous  
20          pursuit of a new headquarters facility.

21   **Q.    WHAT WAS SKRECC’S APPROXIMATE COST TO ACQUIRE THE**  
22          **NORTHERN PROPERTY?**

23   A.    In total, SKRECC paid approximately \$1.206 million for the Northern Property.

1 **Q. DOES SKRECC PRESENTLY UTILIZE THE NORTHERN PROPERTY?**

2 A. No. Although, as previously described, the tracts that comprise the Northern  
3 Property were purchased by SKRECC in 2003-2004 for the purpose of  
4 constructing thereupon a new headquarters facility, SKRECC no longer prefers to  
5 construct a new headquarters facility upon the Northern Property. The Northern  
6 Property has not been developed, improved, or otherwise used by SKRECC.

7 **Q. DOES SKRECC CONSIDER THE NORTHERN PROPERTY OBSOLETE**  
8 **FOR ITS PURPOSES?**

9 A. Yes. The Northern Property is not in use and, for the reasons discussed later in  
10 my testimony, is no longer useful to Applicant and is therefore obsolete for  
11 Applicant's purposes.

12 **Q. WHAT WAS THE APPROXIMATE SQUARE FOOTAGE OF THE 2008**  
13 **PROPOSED HEADQUARTERS?**

14 A. The size of the 2008 Proposed Headquarters was originally projected at 134,112  
15 sq. ft., and included an office building (46,060 sq. ft.), a warehouse (62,662 sq.  
16 ft.), and a covered fleet parking building (25,390 sq. ft.).

17 **Q. WHAT WAS THE ESTIMATED COST OF THE 2008 PROPOSED**  
18 **HEADQUARTERS?**

19 A. The originally-estimated cost of the 2008 Proposed Headquarters was \$19.3  
20 million, but was later revised to \$18.1 million.

21 **Q. DID THE COMMISSION APPROVE SKRECC'S REQUEST FOR A**  
22 **CPCN TO CONSTRUCT THE 2008 PROPOSED HEADQUARTERS?**

1 A. No. By Order entered October 15, 2009 (the “October 15<sup>th</sup> Order”), the  
2 Commission denied without prejudice SKRECC’s request for a CPCN to  
3 construct the 2008 Proposed Headquarters. The Commission expressed concern  
4 that, due to its projected size and cost, the 2008 Proposed Headquarters would  
5 result in the wasteful duplication of facilities.

6 **Q. IN ITS OCTOBER 15<sup>TH</sup> ORDER, DID THE COMMISSION MAKE ANY**  
7 **DETERMINATIONS WITH RESPECT TO THE ADEQUACY OF**  
8 **SKRECC’S EXISTING HEADQUARTERS?**

9 A. Yes. In its October 15<sup>th</sup> Order, the Commission determined that SKRECC had  
10 “demonstrated that its existing headquarters facility is inadequate and a new  
11 headquarters facility is needed.” For this reason, the Commission’s October 15<sup>th</sup>  
12 Order permitted SKRECC to file a revised application in order to address the  
13 Commission’s concerns with the 2008 Proposed Headquarters.

14 **Q. DID SKRECC FILE A REVISED APPLICATION?**

15 A. Yes. On January 22, 2010, SKRECC filed a revised application for a CPCN to  
16 construct a smaller and less costly new headquarters facility (the “2010 Proposed  
17 Headquarters”).

18 **Q. HOW DID THE 2010 PROPOSED HEADQUARTERS DIFFER FROM**  
19 **THE 2008 PROPOSED HEADQUARTERS?**

20 A. The 2010 Proposed Headquarters represented an 11,800 sq. ft. and \$2.8 million  
21 reduction to the original size and cost of the 2008 Proposed Headquarters.  
22 Specifically, the 2010 Proposed Headquarters was designed with a 60,862 sq. ft.  
23 warehouse building (1,800 sq. ft. smaller than the 2008 Proposed Headquarters)



1 and a 15,390 sq. ft. parking facility (10,000 sq. ft. smaller than the 2008 Proposed  
2 Headquarters). No revision was made to the proposed office building and  
3 community/training room, which were to remain at a total of 46,060 sq. ft.

4 **Q. DID THE COMMISSION APPROVE SKRECC'S REQUEST FOR A**  
5 **CPCN TO CONSTRUCT THE 2010 PROPOSED HEADQUARTERS?**

6 A. Yes. By Order entered May 11, 2010 (the "May 11th Order"), the Commission  
7 granted Applicant's request for a CPCN based on its revised application and  
8 approved an expenditure of up to \$15.3 million to construct the 2010 Proposed  
9 Headquarters.

10 **Q. WHY DID SKRECC NOT MOVE FORWARD WITH CONSTRUCTION**  
11 **OF THE 2010 PROPOSED HEADQUARTERS?**

12 A. The original filing occurred on September 5, 2008 in Case No. 2008-00371 and  
13 was not approved until May 11, 2010. SKRECC became concerned about the  
14 substantial downturn in both the national and local economies that occurred at that  
15 time. SKRECC's Board of Directors determined that the project should be  
16 delayed until the economic climate improved. Subsequently, the Commission's  
17 May 11<sup>th</sup> Order approving the requested CPCN expired. Also during this time,  
18 SKRECC's Board of Directors had a significant change in leadership.  
19 SKRECC's current Board of Directors fully supports the proposed project.

20 **Q. WHERE DOES SKRECC INTEND TO CONSTRUCT THE 2014**  
21 **PROPOSED HEADQUARTERS?**

22 A. SKRECC intends to construct the 2014 Proposed Headquarters on approximately  
23 30.2 acres of real estate located at the intersection of Parkers Mill Road and

1 Sumerset Boulevard (f/k/a Weddle Lane) in Somerset, Pulaski County, Kentucky  
2 (the "Sumerset Houseboats Property").

3 **Q. DOES SKRECC CURRENTLY OWN THE SUMERSET HOUSEBOATS**  
4 **PROPERTY?**

5 A. No. The Sumerset Houseboats Property was previously owned by Sumerset  
6 Acquisition, LLC d/b/a Sumerset Houseboats, and is presently owned by Citizens  
7 National Bank of Somerset, Kentucky ("Citizens").

8 **Q.** [REDACTED]  
9 [REDACTED]

10 A. [REDACTED]  
11 [REDACTED]  
12 [REDACTED]  
13 [REDACTED]  
14 [REDACTED]  
15 [REDACTED]  
16 [REDACTED].

17 **Q. WHY IS SKRECC NOT CONSTRUCTING THE 2014 PROPOSED**  
18 **HEADQUARTERS ON THE NORTHERN PROPERTY?**

19 A. On August 7, 2013, SKRECC retained the services of Glen Ross, President of  
20 MSE of Kentucky, Inc. ("MSE"), to evaluate two potential building sites. The  
21 evaluation included the previously considered Northern Property and a new  
22 opportunity at the Sumerset Houseboats Property. MSE was charged with  
23 analyzing the two sites to determine which would be most economically-feasible

1 and attractive for a new headquarters facility, taking into consideration of  
2 numerous factors including, but not limited to, which site would provide the best  
3 access for SKRECC's members and which site would allow easy access to all of  
4 SKRECC's service territories and district office locations. This analysis indicated  
5 that the adaptation of the Somerset Houseboats Property would be more  
6 economically-feasible and attractive than new construction on the Northern  
7 Property site.

8 The cost savings in favor of the Somerset Houseboats Property are primarily  
9 driven by the fact that there will be little (if any) cost associated with providing  
10 utility infrastructure (electricity, natural gas, water, and sewer) to the site; there  
11 will be little site preparation needed; and, there are existing buildings on the  
12 property that will merely require renovation. The Northern Property is  
13 completely undeveloped and all of the above improvements would have to be  
14 newly constructed. The location of the Somerset Houseboats Property is  
15 considered to be more favorable than the Northern Property because of its central  
16 location and accessibility to SKRECC's members and from SKRECC's district  
17 offices in the Clinton County District, McCreary County District, Russell County  
18 District, and Wayne County District.

19 **Q. WHY DID SKRECC CHOOSE THE SOMERSET HOUSEBOATS**  
20 **PROPERTY AS THE LOCATION FOR ITS 2014 PROPOSED**  
21 **HEADQUARTERS?**

22 A. The existing buildings on the Somerset Houseboats Property adapt very nicely to  
23 all of SKRECC's warehousing, transportation, maintenance, storage, and fleet



1 parking needs. Additionally, due to its location and footprint, the Somerset  
2 Houseboats Property includes room for future growth. Finally, the Somerset  
3 Houseboats Property provides an opportunity for SKRECC to renovate and  
4 upgrade an abandoned facility, thus promoting community development and  
5 satisfying local residents. For these reasons and others discussed herein, the  
6 Somerset Houseboats Property is an excellent location for SKRECC's 2014  
7 Proposed Headquarters.

8 **Q. PLEASE GENERALLY DESCRIBE THE SUMERSET HOUSEBOATS**  
9 **PROPERTY.**

10 **A.** In its current state, the Somerset Houseboats Property consists of approximately  
11 30.2 acres of developed real estate improved with a large manufacturing building  
12 (176,220 sq. ft.) and five (5) smaller buildings (8,690 sq. ft., 8,043 sq. ft., 1,837  
13 sq. ft., 575 sq. ft., and 512 sq. ft., respectively).

14 **Q. DOES SKRECC INTEND TO MODIFY AND/OR REMODEL THE**  
15 **SUMERSET HOUSEBOATS PROPERTY?**

16 **A.** Yes. SKRECC intends to modify/remodel approximately 123,124 sq. ft. of the  
17 existing large manufacturing building to enable its use as warehouse, storage,  
18 operations, maintenance, and covered parking area. SKRECC intends to  
19 demolish and remove the remaining 53,096 sq. ft. of the large manufacturing  
20 building and replace same with a two (2) story, 37,064 sq. ft. office building and  
21 an uncovered parking area. Finally, SKRECC intends to modify/remodel the five  
22 (5) existing, smaller buildings for use as vehicle maintenance, marketing storage,  
23 meter testing lab and storage, buildings and grounds storage and workshop, and

1 fuel tank storage areas. Further discussion of the size and design of the 2014  
2 Proposed Headquarters is contained in the testimony of Mr. Glen Ross, attached  
3 as Exhibit 5 to SKRECC's Application.

4 **Q. HAS SKRECC EMPLOYED AN ARCHITECT FOR THE 2014**  
5 **PROPOSED HEADQUARTERS?**

6 A. Yes. SKRECC employed MSE to serve as architect of the 2014 Proposed  
7 Headquarters on April 25, 2014.

8 **Q. WHY DID SKRECC CHOOSE MSE AS ARCHITECT FOR THE 2014**  
9 **PROPOSED HEADQUARTERS?**

10 A. MSE is a well-respected architecture, engineering and planning services firm with  
11 extensive experience in warehouse and manufacturing-type building  
12 constructions, in addition to various large office building construction for  
13 governmental agencies, development foundations, and utilities. SKRECC's  
14 Board of Directors was very pleased with MSE and their initial engagement in the  
15 completion and presentation of the comparison of the two sites for a possible  
16 headquarters facility location. MSE was very professional, knowledgeable, and  
17 easily communicated valuable information. MSE was very knowledgeable of the  
18 Somerset Houseboats Property from prior work which it performed for others  
19 interested in the property. MSE's familiarity with SKRECC's structure,  
20 employees, needs, and business generally, rendered MSE the clear choice for  
21 architect for the 2014 Proposed Headquarters. For more specifics on MSE and  
22 its work experience, please refer to the testimony of Glen Ross, attached as  
23 Exhibit 5 to SKRECC's Application.

1 **Q. HAS MSE PROVIDED A CONSTRUCTION COST ESTIMATE WITH**  
2 **RESPECT TO THE 2014 PROPOSED HEADQUARTERS?**

3 A. Yes. MSE estimates that the construction cost of the 2014 Proposed  
4 Headquarters, including architect's fee, insurance, and contingency, will be  
5 \$10,226,718.

6 **Q. IN ADDITION TO CONSTRUCTION COSTS, WHAT OTHER COSTS**  
7 **DOES SKRECC ESTIMATE IT WILL INCUR TO COMPLETE THE 2014**  
8 **PROPOSED HEADQUARTERS?**

9 A. SKRECC estimates that items necessary to complete the 2014 Proposed  
10 Headquarters (including fuel tanks (\$75,000), a communications tower and  
11 related equipment (\$110,000), solar panels (\$60,000), LED lighting (\$30,000),  
12 furnishings (\$188,282), and legal expenses (\$10,000)) will cost \$473,282. Thus,

13 [REDACTED] Applicant  
14 estimates that the 2014 Proposed Headquarters will cost \$10,700,000. [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 [REDACTED].

19 **Q. WHAT DOES SKRECC INTEND TO DO WITH THE EXISTING**  
20 **HEADQUARTERS IF THE 2014 PROPOSED HEADQUARTERS IS**  
21 **APPROVED, CONSTRUCTED, AND UTILIZED?**

22 A. If the 2014 Proposed Headquarters is approved, constructed, and utilized,  
23 SKRECC intends to sell the Existing Headquarters. Pursuant to KRS 278.218(1),



1 Applicant intends to seek the Commission's approval (or, in the alternative, a  
2 determination that such approval is unnecessary) prior to transferring ownership  
3 of the Existing Headquarters. No such requests are part of the present case,  
4 however, and the cost estimates related to the 2014 Proposed Headquarters do not  
5 include any credit for the funds that SKRECC may realize upon the sale of the  
6 Existing Headquarters.

7 **Q. PLEASE BRIEFLY DESCRIBE IN WHAT WAYS THE 2014 PROPOSED**  
8 **HEADQUARTERS IMPROVES UPON THE EXISTING**  
9 **HEADQUARTERS.**

10 A. The 2014 Proposed Headquarters is designed to address a number of issues  
11 associated with the Existing Headquarters. The 2014 Proposed Headquarters will  
12 be able to more comfortably accommodate individuals with certain physical  
13 limitations, will be safer for employees and visitors in both emergency situations  
14 and with respect to general ingress and egress, and will include needed  
15 technological improvements essential to 21<sup>st</sup>-century business. The 2014  
16 Proposed Headquarters also represents a departure from the ineffective and  
17 fragmented layout associated with the Existing Headquarters in meeting  
18 SKRECC's needs; it is designed with adequate workspace and appropriate space  
19 for employee and community activities, parking, restrooms, and common areas.  
20 In short, the 2014 Proposed Headquarters improves upon the Existing  
21 Headquarters in nearly every way imaginable.

22 **Q. HAS SKRECC CONSIDERED ANY ALTERNATIVES TO THE 2014**  
23 **PROPOSED HEADQUARTERS?**

1 A. Yes. As part of the 2008 Matter, SKRECC evaluated a number of facility  
2 analyses, design options, and potential locations for a new headquarters facility.  
3 Prior to the purchase of the Northern Property, ten sites were reviewed and  
4 evaluated. In 2013, SKRECC evaluated its current options with assistance from  
5 Glen Ross of MSE. Included in the most-recent evaluation was modification of  
6 the SKRECC's Existing Headquarters, development of the Northern Property, and  
7 a review of the opportunity at the Somerset Houseboats Property. SKRECC's  
8 conclusion was the same as in the 2008 Matter with regard to retrofit and  
9 modification of the Existing Headquarters -- in light of the Existing Headquarters'  
10 design, size, inefficiencies, and location, it cannot adequately satisfy the current  
11 and future needs of SKRECC and the consumers SKRECC serves and further  
12 renovation/expansion is not a viable option. With respect to the Northern  
13 Property, the estimated construction and site development costs would be much  
14 greater than those for the Somerset Houseboats Property alternative; additionally,  
15 the Somerset Houseboats Property includes existing buildings, a site footprint,  
16 and a location well-suited for a new headquarters facility. Thus, the resulting  
17 conclusion is that the Somerset Houseboats Property represents the most  
18 reasonable, least-cost solution to SKRECC's needs.

19 **Q. PLEASE DESCRIBE THE RELIEF SOUGHT BY SKRECC IN THIS**  
20 **PROCEEDING.**

21 A. SKRECC seeks a CPCN to construct the 2014 Proposed Headquarters.  
22 Additionally, SKRECC requests that the Commission determine that its approval  
23 is not required prior to SKRECC's transfer of the Northern Property [REDACTED]

1 or, in the alternative, that the Commission grant such approval. Finally, SKRECC  
2 requests that the relief for which it prays be awarded by the Commission on an  
3 expedited basis, *to wit*, on or before March 15, 2015, for the reasons stated herein.

4 **Q. UPON WHAT FACTS DOES SKRECC RELY TO SHOW THAT THE 2014**  
5 **PROPOSED HEADQUARTERS IS REQUIRED FOR THE PUBLIC'S**  
6 **CONVENIENCE AND NECESSITY?**

7 A. As stated in the Application to which this testimony is attached and as supported  
8 by the testimony submitted therewith, (1) due to its size, inefficiencies, design,  
9 and location, the Existing Headquarters cannot adequately satisfy the current and  
10 future needs of SKRECC and the consumers SKRECC serves; (2) it is neither  
11 cost-effective nor feasible to sufficiently renovate, expand, and retrofit the  
12 Existing Headquarters to adequately satisfy the current and future needs of  
13 SKRECC and the consumers SKRECC serves; (3) the 2014 Proposed  
14 Headquarters is not excessive in terms of investment or scope, and will not result  
15 in a wasteful duplication of facilities; and (4) SKRECC has thoroughly reviewed  
16 and considered alternatives to the 2014 Proposed Headquarters and determined  
17 that the 2014 Proposed Headquarters represents a reasonable, least-cost solution  
18 to SKRECC's needs.

19 **Q. WILL THE 2014 PROPOSED HEADQUARTERS RESULT IN**  
20 **WASTEFUL DUPLICATION OF FACILITIES?**

21 A. No. The 2014 Proposed Headquarters will reasonably satisfy SKRECC's current  
22 and future needs for office and warehouse space and is necessary to address  
23 significant inadequacies for SKRECC associated with the Existing Headquarters.



1 The 2014 Proposed Headquarters will not compete with other utility facilities, nor  
2 will the 2014 Proposed Headquarters in any way clutter the relevant landscape. In  
3 sum, because the 2014 Proposed Headquarters is the most reasonable, least cost,  
4 feasible alternative available to SKRECC, it does not represent excessive  
5 investment in relation to efficiency and will not result in an unnecessary  
6 multiplicity of physical properties.

7 **Q. WHY DOES SKRECC REQUEST THAT THE COMMISSION AWARD IT**  
8 **THE RELIEF IT REQUESTS ON OR BEFORE MARCH 15, 2015?**

9 A. [REDACTED]  
10 [REDACTED]  
11 [REDACTED]  
12 [REDACTED]  
13 [REDACTED]. SKRECC

14 requests a decision on or before March 15, 2015, to afford the parties sufficient  
15 time to finalize documentation and procedural details necessary to allow for  
16 construction bids to be awarded in time for a spring 2015 start date.

17 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

18 A. Due to the size, design, inefficiencies, and location of the Existing Headquarters,  
19 it cannot adequately satisfy the current and future needs of SKRECC and the  
20 consumers SKRECC serves. For this reason, and consistent with the  
21 Commission's holding in the 2008 Matter, SKRECC believes it necessary to  
22 construct a new headquarters facility. SKRECC, in conjunction with its chosen  
23 architect, has determined that the 2014 Proposed Headquarters represents the

1 most reasonable, least cost solution for addressing its needs. The 2014 Proposed  
2 Headquarters will be constructed at the Somerset Houseboats Property site, which  
3 is well-suited for the project. Moreover, the estimated all-in cost of the 2014  
4 Proposed Headquarters is [REDACTED]  
5 [REDACTED]. In  
6 addition to the reduced cost of construction, the revitalization of an abandoned  
7 facility in the core district of the City of Somerset provides both tangible and  
8 intangible benefits to the local community. Further, the Somerset Houseboats  
9 Property will provide ease of access to SKRECC's members in light of its  
10 location near schools, shopping and residential areas. This is a unique  
11 opportunity for SKRECC to positively impact its community while creating more  
12 efficient operations, enhancing services to members, and allowing SKRECC to  
13 utilize the energy-efficient technologies that it promotes to its members.

14 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

15 **A. Yes.**

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**IN THE MATTER OF:**

**AN APPLICATION OF SOUTH KENTUCKY )**  
**RURAL ELECTRIC COOPERATIVE )**  
**CORPORATION FOR A CERTIFICATE OF )**  
**PUBLIC CONVENIENCE AND NECESSITY )**  
**TO CONSTRUCT A NEW HEADQUARTERS )**  
**FACILITY AND FOR APPROVAL TO TRANSFER )**  
**OWNERSHIP OF CERTAIN ASSETS OR, IN )**  
**THE ALTERNATIVE, A DETERMINATION THAT )**  
**SUCH APPROVAL IS UNNECESSARY )**

**CASE NO. \_\_\_\_\_**

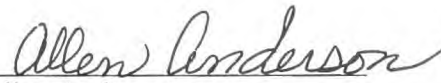
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**VERIFICATION OF ALLEN ANDERSON**


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COMMONWEALTH OF KENTUCKY )  
 )  
 COUNTY OF Pulaski )

Allen Anderson, President and Chief Executive Officer of South Kentucky Rural Electric Cooperative Corporation, being duly sworn, states that he has read the foregoing prepared testimony and that he would respond in the same manner to the questions if so asked upon taking the stand, and that the matters and things set forth therein are true and correct to the best of his knowledge, information and belief.

  
 Allen Anderson

The foregoing Verification was signed, acknowledged and sworn to before me this 7<sup>th</sup> day of October, 2014, by Allen Anderson.

  
 NOTARY PUBLIC, Notary # 515365  
 Commission expiration: July 16, 2018





**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**IN THE MATTER OF:**

<b>AN APPLICATION OF SOUTH KENTUCKY</b>	)	
<b>RURAL ELECTRIC COOPERATIVE</b>	)	
<b>CORPORATION FOR A CERTIFICATE OF</b>	)	
<b>PUBLIC CONVENIENCE AND NECESSITY</b>	)	<b>CASE NO. _____</b>
<b>TO CONSTRUCT A NEW HEADQUARTERS</b>	)	
<b>FACILITY AND FOR APPROVAL TO TRANSFER</b>	)	
<b>OWNERSHIP OF CERTAIN ASSETS OR, IN</b>	)	
<b>THE ALTERNATIVE, A DETERMINATION THAT</b>	)	
<b>SUCH APPROVAL IS UNNECESSARY</b>	)	

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**DIRECT TESTIMONY OF MICHELLE D. HERRMAN**  
**ON BEHALF OF**  
**SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION**

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**Filed: October 8, 2014**

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**  
2 **OCCUPATION.**

3 A. My name is Michelle D. Herrman and my business address is South Kentucky  
4 Rural Electric Cooperative Corporation ("SKRECC" or "Applicant"), 925 N.  
5 Main St., Somerset, Kentucky 42503. I am Vice President of Finance at  
6 SKRECC.

7 **Q. PLEASE STATE YOUR EDUCATION AND PROFESSIONAL**  
8 **EXPERIENCE.**

9 A. I hold a Bachelor's Degree from Syracuse University in Mathematics, as well as a  
10 Master's Degree in Business Administration from Phillips University. I also  
11 maintain the two following certifications: Certified Public Accountant (CPA) and  
12 Professional in Human Resources (PHR). I served on active duty in the United  
13 States Air Force, leaving the service as the rank of Captain. My field of specialty  
14 was Contracting at the base level. After leaving military service, I worked in  
15 public accounting for a small accounting firm specializing in auditing of  
16 government and not-for-profit entities. After eight years in public accounting, I  
17 moved to the private sector and served as the Chief Financial Officer for the Boys  
18 and Girls Clubs of Greater Cincinnati. In 2011, I was hired at Owen Electric  
19 Cooperative and served as its Controller until accepting my current position with  
20 SKRECC as Vice President of Finance in August, 2013.

21 **Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR DUTIES AT**  
22 **SKRECC.**



1 A. As Vice President of Finance, I am responsible for the oversight of the  
2 accounting, information technology, warehouse functions and the regulatory  
3 affairs components of the cooperative. My overarching responsibility is the  
4 financial oversight of SKRECC.

5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
6 **PROCEEDING?**

7 A. The purpose of my testimony is to describe the method by which SKRECC will  
8 finance the new headquarters facility that it proposes to construct (the “2014  
9 Proposed Headquarters”), how SKRECC arrived at estimated costs for several  
10 significant and necessary project expenditures, and the anticipated effect that the  
11 project will have on several of SKRECC’s key financial metrics.

12 **Q. ARE YOU SPONSORING ANY EXHIBITS?**

13 A. Yes. I am providing and sponsoring the following exhibit which was prepared in  
14 conjunction with Mr. Jim Adkins, SKRECC’s rate and financial consultant, and  
15 which I ask be incorporated into my testimony by reference:

- 16 • Exhibit MDH-1, SKRECC’s Summary of Ten Year Financial  
17 Forecast.

18 **Q. WHAT IS SKRECC’S ANNUAL COST TO OPERATE AND MAINTAIN**  
19 **ITS EXISTING HEADQUARTERS FACILITY?**

20 A. The annual operation and maintenance (“O&M”) costs of SKRECC’s existing  
21 headquarters facility (the “Existing Headquarters”) is \$285,000 and is broken out  
22 as follows:

23

1

TABLE 1

**Estimated Annual Costs to Operate Current Headquarters Facility**

Electric/ Gas	\$	56,400
Heating Fuel		10,000
Water & Sewer		10,080
Taxes		25,120
Insurance		5,900
Maintenance		110,066
Capital Repairs/Improvements		31,070
Subtotal	\$	248,636
Depreciation Expense		36,364
	\$	<u>285,000</u>

3

4 **Q. WHERE DOES SKRECC INTEND TO CONSTRUCT THE 2014**  
5 **PROPOSED HEADQUARTERS?**

6 A. SKRECC intends to construct the 2014 Proposed Headquarters on approximately  
7 30.2 acres of real estate located at the intersection of Parkers Mill Road and  
8 Somerset Boulevard (f/k/a Weddle Lane) in Somerset, Pulaski County, Kentucky  
9 (the "Somerset Houseboats Property").

10 **Q. DOES SKRECC CURRENTLY OWN THE SUMERSET HOUSEBOATS**  
11 **PROPERTY?**

12 A. No. The Somerset Houseboats Property was previously owned by Somerset  
13 Acquisition, LLC d/b/a Somerset Houseboats, and is presently owned by Citizens  
14 National Bank of Somerset, Kentucky ("Citizens").

15 **Q.** [REDACTED]  
16 [REDACTED]

1 A. [REDACTED]  
2 [REDACTED]  
3 [REDACTED]  
4 [REDACTED]  
5 [REDACTED]  
6 [REDACTED]  
7 [REDACTED]  
8 [REDACTED].

9 **Q. WHAT IS THE ESTIMATED TOTAL COST OF THE 2014 PROPOSED**  
10 **HEADQUARTERS?**

11 A. The total estimated net cost of the 2014 Proposed Headquarters is [REDACTED].  
12 This amount includes estimated construction costs of \$10,226,718, estimated  
13 costs of items necessary to complete the 2014 Proposed Headquarters (including  
14 fuel tanks (\$75,000), a communications tower and related equipment (\$110,000),  
15 solar panels (\$60,000), LED lighting (\$30,000), furnishings (\$188,282), and legal  
16 expenses (\$10,000)) of \$473,282, and the net cost of [REDACTED]  
17 [REDACTED]  
18 [REDACTED]  
19 [REDACTED].

20 **Q. HOW DID SKRECC ARRIVE AT ITS ESTIMATIONS FOR COSTS**  
21 **ASSOCIATED WITH FUEL TANKS, A COMMUNICATIONS TOWER**  
22 **AND RELATED EQUIPMENT, SOLAR PANELS, ETC.?**

1 A. In regards to the costs associated with the fuel tanks and communications tower  
2 and equipment, we have received soft-bids from suppliers based upon a  
3 description of our needs. In regards to the solar panel and LED lighting, our  
4 architect, MSE of Kentucky, Inc. ("MSE"), provided these cost estimates. The  
5 estimated cost for furnishings is also based on the recommendation MSE at a  
6 reduced cost in consideration of SKRECC's desire to utilize useable furnishings  
7 from the Existing Headquarters. The estimated legal expense cost was based on  
8 the recommendation of MSE based on their knowledge of the required legal  
9 filings and permits associated with the project.

10 **Q. DOES SKRECC INTEND TO FINANCE THE COSTS ASSOCIATED**  
11 **WITH THE 2014 PROPOSED HEADQUARTERS?**

12 A. Yes. SKRECC intends to finance the full cost [REDACTED] of the 2014  
13 Proposed Headquarters, including the cost of [REDACTED]  
14 [REDACTED].

15 **Q. PLEASE DESCRIBE HOW SKRECC INTENDS TO FINANCE THE**  
16 **COSTS ASSOCIATED WITH THE 2014 PROPOSED HEADQUARTERS.**

17 A. SKRECC has available encumbered funds sufficient to finance the entire 2014  
18 Proposed Headquarters from its approved U.S. Department of Agriculture's Rural  
19 Utilities Service ("RUS") Loan Contract, Kentucky 54-BC8 Wayne, in  
20 conjunction with its 2010-2013 Work Plan approved by the Kentucky Public  
21 Service Commission in Case No. 2010-00055, *Application of South Kentucky*  
22 *Rural Electric Cooperative Corporation for a Certificate of Convenience and*  
23 *Necessity to Construct Additional Lines and Facilities* (Ky. PSC June 24, 2010).



1 These funds are available for draw currently, and the funds drawn from RUS shall  
2 be from the Federal Financing Bank ("FFB"). These funds are available to  
3 SKRECC based on the published daily rates by RUS for its FFB Quarterly Rates.  
4 The final interest rate shall be determined on the date of draw, and the loan term  
5 shall be approximately 31 years with a maturity date of January 2, 2046. The  
6 exact loan term length is determined on the date of draw. No separate financing  
7 will be pursued by SKRECC.

8 In order to take advantage of the current low interest rates and to secure the debt  
9 service costs, SKRECC has drawn down \$10,000,000 of the needed funds at an  
10 interest rate of 2.87%, with a maturity date of January 2, 2046. The remainder of  
11 the needed funds will be drawn at a later date. In the event that the project is not  
12 approved by the Commission, these funds will be invested for future general  
13 operating needs.

14 **Q. WHY DOES SKRECC RETAIN ENOUGH AVAILABLE ENCUMBERED**  
15 **FUNDS FROM ITS 2010-2013 WORKPLAN TO FINANCE THE 2014**  
16 **PROPOSED HEADQUARTERS?**

17 A. SKRECC was able to pay for a great deal of the capital projects associated with  
18 its Work Plan with cash resources. As previously mentioned, SKRECC's Work  
19 Plan was to span from 2010-2013. Depressed growth in our service territory over  
20 the Loan Contract period has caused the projects to slow to a pace where cash  
21 from margins has been able to provide an adequate cash flow to support the costs  
22 associated with our capital projects without the need for the projected level of  
23 Loan funding. While these funds are needed, in part, to fund our capital projects,

1 we have been able to extend the Work Plan project period from 4 years to 6 years.  
2 Although we have been able to extend the project period, we are, however, unable  
3 to extend the last date of draw for these funds. The current loan document  
4 requirements stipulate that March 1, 2016, is the last date that funds may be  
5 drawn from the current loan Work Plan. Remaining funds available within the  
6 Work Plan after consideration of the building financing will be [REDACTED]. We  
7 anticipate that the funds remaining will satisfy our future needs prior to the  
8 expiration of the Work Plan loan.

9 **Q. WHY IS IT ADVANTAGEOUS FOR SKRECC TO FINANCE THE 2014**  
10 **PROPOSED HEADQUARTERS IN THIS FASHION?**

11 A. As previously stated, these funds must be drawn down by March 1, 2016. Our  
12 current forecast for borrowing indicates that the funds used for this project will  
13 not be needed for general operations prior to their expiration in March 1, 2016.  
14 RUS has been notified of our intent to use these funds for this purpose and have  
15 indicated that once the funds have been encumbered they are considered “cash”  
16 and are available for draw and can be used for general operations at our  
17 discretion. Additionally, utilizing this method eliminates the need to seek  
18 additional funding from RUS and the time to complete the funding process.  
19 Subsequently, it allows SKRECC to secure funding at today’s low lending interest  
20 rates. A delay in the funding could impact the cost of the funds in a manner  
21 disadvantageous to SKRECC.

1 **Q. PLEASE DESCRIBE THE ESTIMATED IMPACT THAT THE COST OF**  
2 **THE 2014 PROPOSED HEADQUARTERS WILL HAVE ON SKRECC'S**  
3 **OVERALL FINANCIAL CONDITION.**

4 A. SKRECC has retained Mr. Jim Adkins as a consultant to prepare and analyze a 10  
5 year financial forecast employing a base model without the project costs and a  
6 comparable model with the proposed project costs. I provided assistance to Mr.  
7 Adkins in completing this task. The results of the forecast indicate that  
8 SKRECC's current rate structure will not require adjustment due to the additional  
9 costs of the proposed project. While the annual margins will be less with the  
10 proposed project cost, SKRECC will maintain positive margins and the margins  
11 will be sufficient to meet current lending requirements. Please refer to Exhibit  
12 MDH-1 to my testimony for further illustration.

13 **Q. PLEASE DESCRIBE THE ESTIMATED IMPACT THAT THE COST OF**  
14 **THE 2014 PROPOSED HEADQUARTERS WILL HAVE ON THE**  
15 **RETAIL RATES PAID BY SKRECC'S MEMBERS.**

16 A. There is no projected increase in cost of power to the average member due to the  
17 project cost as reflected in the 10 year financial forecast.

18 **Q. WHAT DOES SKRECC ANTICIPATE WILL BE ITS ANNUAL COST TO**  
19 **OPERATE AND MAINTAIN THE 2014 PROPOSED HEADQUARTERS**  
20 **ONCE COMPLETED AND UTILIZED?**

21 A. SKRECC estimates that the annual operation and maintenance expenses  
22 associated with the 2014 Proposed Headquarters once completed and utilized will  
23 be \$993,454 (including the non-cash depreciation expense), as follows:

1

**TABLE 2**

**Estimated Annual Costs to Operate the Proposed Headquarters Facility**

Electric/ Gas	\$	66,400
Heating Fuel		-
Water & Sewer		13,860
Taxes		121,095
Insurance		29,635
Maintenance		121,598
Capital Repairs/Improvements		-
	Subtotal: \$	352,588
Interest Expense		396,466
Depreciation Expense		244,400
	\$	<u>993,454</u>

\* Interest Expense is estimated at a loan interest rate of 2.96%. The table illustrates the 1st year interest expense and will reduce accordingly over the life of the loan. While the loan is not specifically attached to the new facility, we are incorporating this cost for informational purposes.

2

3

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Additionally, it is anticipated that the Existing Headquarters will be sold at a future time. Upon the sale of the Existing Headquarters, cash will be generated that will offset the future costs of operating the 2014 Proposed Headquarters.

6

**Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

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A. The Somerset Houseboats Property site is well-suited for the proposed headquarters project. The infrastructure and site improvements in place result in decreased capital expenditures for site preparation and are easily adaptable to SKRECC's operations. Our current revenue stream, together with the other known factors at this time, indicate that SKRECC has the financial strength to bear the costs of this project, while maintaining RUS lender requirements and with no impact on member rates due to the project. The costs of borrowing now are also advantageous to SKRECC. With the ability to capture long term interest



1 rates at below 3%, SKRECC can positively impact its expenses approximately 31  
2 years into the future. The funding is available now and provides a unique  
3 opportunity to invest in SKRECC and the members it serves. Financial  
4 projections indicate that SKRECC can maintain lender ratio requirements of TIER  
5 at or above 1.25 and OTIER at or above 1.10. This can be done with the  
6 estimated cost of the project and the low cost of borrowing, without an impact on  
7 member rates as demonstrated in the 10 year financial forecast.

8 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

9 A. Yes.

**SKRECC Summary of Ten Year Financial Forecast Statement of  
Operations**

As of 9/11/2014

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
<b>Base Case (No investment in the proposed project)</b>										
Net Margins	\$4,746,323	\$3,229,489	\$3,371,082	\$3,272,265	\$3,367,643	\$3,496,984	\$3,642,148	\$4,015,833	\$4,347,246	\$4,721,266
Op-TIER	1.65	1.37	1.40	1.38	1.39	1.41	1.44	1.49	1.54	1.60
TIER	1.81	1.55	1.57	1.56	1.57	1.60	1.62	1.68	1.73	1.79
Cost of Power to Average Member (per kWh)	\$0.1091	\$0.1066	\$0.1090	\$0.1116	\$0.1128	\$0.1145	\$0.1173	\$0.1197	\$0.1211	\$0.1227
Net Margins Per Member	\$74	\$50	\$52	\$50	\$51	\$52	\$53	\$58	\$62	\$67

**Investment in proposed project**

Net Margins	\$4,607,713	\$2,180,483	\$1,815,341	\$1,633,228	\$1,701,145	\$1,829,284	\$1,973,533	\$2,346,484	\$2,677,346	\$3,050,996
Op-TIER	1.61	1.19	1.13	1.10	1.11	1.13	1.15	1.20	1.25	1.31
TIER	1.77	1.35	1.29	1.26	1.26	1.28	1.31	1.36	1.41	1.47
Cost of Power to Average Member (Per kWh)	\$0.1091	\$0.1066	\$0.1090	\$0.1116	\$0.1128	\$0.1145	\$0.1173	\$0.1197	\$0.1211	\$0.1227
Net Margin Per Member	\$71	\$35	\$29	\$26	\$27	\$28	\$30	\$35	\$39	\$44

## Key Assumptions:

1. Utilizes 2014 SKRECC Load Forecast
2. Utilizes 2014 Power Cost from EKPC
3. Assumes interest rates of 3%
4. Plant Expansion of \$7 million per year
5. Direct Flow Thru of EKPC Cost Increases
6. Investment for New Building as stated in the application

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

AN APPLICATION OF SOUTH KENTUCKY )  
RURAL ELECTRIC COOPERATIVE )  
CORPORATION FOR A CERTIFICATE OF )  
PUBLIC CONVENIENCE AND NECESSITY )  
TO CONSTRUCT A NEW HEADQUARTERS )  
FACILITY AND FOR APPROVAL TO TRANSFER )  
OWNERSHIP OF CERTAIN ASSETS OR, IN )  
THE ALTERNATIVE, A DETERMINATION THAT )  
SUCH APPROVAL IS UNNECESSARY )

CASE NO. \_\_\_\_\_

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VERIFICATION OF MICHELLE D. HERRMAN

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COMMONWEALTH OF KENTUCKY )

COUNTY OF Pulaski )

Michelle D. Herrman, Vice President of Finance of South Kentucky Rural Electric Cooperative Corporation, being duly sworn, states that she has read the foregoing prepared testimony and that she would respond in the same manner to the questions if so asked upon taking the stand, and that the matters and things set forth therein are true and correct to the best of her knowledge, information and belief.

Michelle D. Herrman  
Michelle D. Herrman

The foregoing Verification was signed, acknowledged and sworn to before me this 7<sup>th</sup> day of October, 2014, by Michelle D. Herrman.

Annex A. Nelson  
NOTARY PUBLIC, Notary # 515365  
Commission expiration: July 16, 2018





**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**IN THE MATTER OF:**

<b>AN APPLICATION OF SOUTH KENTUCKY</b>	)	
<b>RURAL ELECTRIC COOPERATIVE</b>	)	
<b>CORPORATION FOR A CERTIFICATE OF</b>	)	
<b>PUBLIC CONVENIENCE AND NECESSITY</b>	)	<b>CASE NO. _____</b>
<b>TO CONSTRUCT A NEW HEADQUARTERS</b>	)	
<b>FACILITY AND FOR APPROVAL TO TRANSFER</b>	)	
<b>OWNERSHIP OF CERTAIN ASSETS OR, IN</b>	)	
<b>THE ALTERNATIVE, A DETERMINATION THAT</b>	)	
<b>SUCH APPROVAL IS UNNECESSARY</b>	)	

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**DIRECT TESTIMONY OF GLEN ROSS**  
**ON BEHALF OF**  
**SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION**

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**Filed: October 8, 2014**

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**  
2 **OCCUPATION.**

3 A. My name is Glen Ross and my business address is MSE of Kentucky, Inc.  
4 ("MSE"), 624 Wellington Way, Lexington, Kentucky 40503. I am a licensed  
5 professional engineer and I serve as President of MSE.

6 **Q. PLEASE STATE YOUR EDUCATION AND PROFESSIONAL**  
7 **EXPERIENCE.**

8 A. I received a Bachelor of Science degree in Civil Engineering (BSCE) in 1968  
9 from the University of Kentucky. In 1971, I earned a Masters degree in Civil  
10 Engineering (MSCE) at the University of Kentucky. In 1972, I was first licensed  
11 as a professional engineer (PE) in Kentucky. Kentucky requires licensees to earn  
12 15 hours of continuing education credits each year to remain licensed. I have  
13 been continuously licensed in Kentucky since 1972.

14 My work experience began as a draftsman/surveyor in 1966 with a Lexington  
15 based engineering firm. Subsequently, I worked as an engineer's aide for the  
16 Kentucky Division of Water. After graduation, I worked as a project engineer for  
17 a Versailles-based engineering firm performing design work for public and  
18 private utilities. After that, I worked as a staff engineer for Spindletop Research  
19 in Lexington, where I worked on a statewide water resources management plan  
20 and a statewide solid waste management plan. Near the end of 1972, I joined  
21 MSE as a project engineer. I was later promoted to Manager of Engineering and  
22 in 1978 was appointed President of the firm. I have been the President of MSE  
23 since 1978.

1 **Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR DUTIES AT**  
2 **MSE.**

3 A. As President of MSE, I also serve as Principal-in-Charge of all our major projects.  
4 This means I am responsible for assigning project personnel, maintaining client  
5 communications/coordination, monitoring project progress and schedule  
6 commitments and assigning project teams based on project requirements.

7 **Q. PLEASE BRIEFLY DESCRIBE MSE AND THE TYPES OF ACTIVITIES**  
8 **IT ROUTINELY PERFORMS FOR UTILITIES LIKE SOUTH**  
9 **KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION**  
10 **(“SKRECC”) AND OTHER NON-UTILITY COMPANIES HAVING**  
11 **NEEDS SIMILAR TO THOSE OF SKRECC IN THIS CASE.**

12 A. MSE provides architecture, engineering and planning services to a large array of  
13 groups in the public and private sectors, including utilities. Some examples  
14 include:

15 City and County Governments	Public and Private Utilities
16 Industrial Authorities	Area Development Districts
17 Private Industry/Developers	Cooperatives
18 State and Federal Agencies	Water, Sewer & Special Districts

19 Services we provide to utilities like SKRECC and other organizations having  
20 similar needs include:

21 Architectural Design	Site, Drainage and Road design
22 Interior Design	Utility analysis/design
23 Site analysis/selection	Cost/rate analysis

1 Master planning Fire protection  
2 Environmental assessment Construction contract administration  
3 Space Analysis

4 **Q. PLEASE BRIEFLY DESCRIBE WHETHER MSE IS FAMILIAR WITH**  
5 **SKRECC'S FACILITIES AND OPERATIONS AND PROVIDE A FEW**  
6 **EXAMPLES OF WORK PREVIOUSLY PERFORMED FOR SKRECC.**

7 A. MSE is very familiar with SKRECC's existing facilities and we have worked  
8 together with many of SKRECC's operations personnel in implementing many  
9 community projects in its service territory. A few examples for SKRECC  
10 include:

- 11 • Design of the Kentucky Lineman Training Center in Somerset;
- 12 • Perform an Alternative Site Evaluation Study for the SKRECC Somerset  
13 Headquarters location;
- 14 • Coordination of Master Plan for electric service for the Valley Oak  
15 Technology Park and the Valley Oak Business Park in Pulaski County;
- 16 • Coordination of electric service for the Somerset Rail Park in Somerset,  
17 Kentucky;
- 18 • Develop a plan for electric service for the SKRECC-served industrial  
19 property adjacent to the Crane Plumbing Facility in Ferguson, Kentucky;  
20 and
- 21 • On-going design of the Somerset Headquarters Facility at the Somerset  
22 Houseboats Property in Somerset, Kentucky.

23 Examples of similar projects for other companies include:



- 1 • Design of the new (2014) warehouse and operations facility for Salt River  
2 Electric in Bardstown;
- 3 • Master plan coordination with Jackson Energy for electric service at the  
4 Vaughn Ridge Industrial Park in Laurel County;
- 5 • Surveys and location layout for an electric transmission line and sub-  
6 station in the MMRC Regional Business Park with East Kentucky Power  
7 and Fleming-Mason Energy in Rowan County, Kentucky;
- 8 • Surveys and location layout for an electric transmission line and future  
9 sub-station location for American Electric Power in the East Park  
10 Regional Business Park in Boyd County, Kentucky;
- 11 • Design of the Corbin Technology Center for the City of Corbin, Kentucky;
- 12 • Design of the 30,000 sq. ft. Martin County Government Office Building  
13 for Martin County, Kentucky;
- 14 • Design of a headquarters/operations facility for Muhlenberg County Water  
15 District;
- 16 • Design of a central office for the City of Stanford Water/Sewer  
17 Commission;
- 18 • Design of 79,000 sq. ft. climate controlled, cross-dock warehouse at the  
19 Somerset Rail Park;
- 20 • Design of the 160,000 sq. ft. Flex Films U.S. headquarters and  
21 manufacturing facility in Elizabethtown, Kentucky; and
- 22 • Design of the 146,000 sq. ft. Aisin Automotive Casting corporate  
23 headquarters and aluminum casting facility in Lily, Kentucky.

1 MSE has reviewed previous space studies and building plans associated with  
2 SKRECC's 2008 Proposed Headquarters; we have toured and inspected the  
3 existing office/operations facilities in Somerset on several occasions; and we have  
4 inspected the Somerset Houseboats property on several occasions both for  
5 SKRECC and for other potential users of the property.

6 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
7 **PROCEEDING?**

8 A. The purpose of my testimony is to describe the process employed to determine  
9 space requirements and layout for the new headquarters facility that SKRECC  
10 proposes to construct (the "2014 Proposed Headquarters"), the method by which  
11 the various estimated cost components of the project were calculated, and  
12 construction and bidding details and related technical information.

13 **Q. ARE YOU SPONSORING ANY EXHIBITS?**

14 A. Yes. I am sponsoring collective Exhibit 2 to the Application, which depicts the  
15 proposed office floor plans, warehouse floor plan, and site development plan. I  
16 am also providing and sponsoring the following exhibits, which I ask be  
17 incorporated into my testimony by reference:

- 18 • Exhibit GR-1, which is a comparison of various space studies conducted  
19 on behalf of SKRECC with respect to its headquarters needs;
- 20 • Exhibit GR-2, which is a construction cost estimate for the 2014 Proposed  
21 Headquarters; and
- 22 • Exhibit GR-3, which is a project schedule timeline.

1 **Q. DID SKRECC ENGAGE MSE TO SERVE AS ARCHITECT FOR THE**  
2 **2014 PROPOSED HEADQUARTERS?**

3 A. Yes. MSE was retained as Architect/Engineer for the design of the 2014  
4 Proposed Headquarters on April 23, 2014.

5 **Q. PLEASE DESCRIBE THE NATURE OF MSE'S ENGAGEMENT BY**  
6 **SKRECC AND WHAT SERVICES MSE WILL PROVIDE TO SKRECC.**

7 A. MSE will provide services for the schematic and preliminary phase, design  
8 development phase, construction documents phase, bidding phase, and  
9 construction phase. These services include programming, architecture, interior  
10 design, civil engineering, landscape design, structural design, mechanical design,  
11 and electrical design. Services will be provided through the design, bidding and  
12 construction contract administration phases for a competitively bid project.

13 **Q. WHERE DOES SKRECC INTEND TO CONSTRUCT THE 2014**  
14 **PROPOSED HEADQUARTERS?**

15 A. SKRECC intends to construct the 2014 Proposed Headquarters on approximately  
16 30.2 acres of real estate located at the intersection of Parkers Mill Road and  
17 Somerset Boulevard (f/k/a Weddle Lane) in Somerset, Pulaski County, Kentucky  
18 (the "Somerset Houseboats Property").

19 **Q. IS THE SUMERSET HOUSEBOATS PROPERTY A DESIRABLE**  
20 **LOCATION FOR THE 2014 PROPOSED HEADQUARTERS?**

21 A. Yes. Our evaluation of the property revealed that it is a central location near a  
22 busy commercial area in South Somerset. Direct access to the Somerset  
23 Houseboats Property is available from just off US 27 via Parkers Mill Road or

1 from Hwy 914 (Somerset Bypass) via Somerset Boulevard. The site  
2 neighborhood includes a school, numerous businesses, and an agricultural area,  
3 all of which are compatible with SKRECC's headquarters operation. The site is  
4 fully served by water, sewer, and natural gas and is located in SKRECC's electric  
5 service territory. The existence of a large manufacturing building and five (5)  
6 small support buildings adds great value to the site when used for SKRECC's  
7 warehouse, operations and covered parking facility.

8 **Q. PLEASE GENERALLY DESCRIBE THE SUMERSET HOUSEBOATS**  
9 **PROPERTY.**

10 A. In its current state, the Somerset Houseboats Property consists of approximately  
11 30.2 acres of developed real estate improved with a large manufacturing building  
12 (176,220 sq. ft. including canopy areas) and five (5) smaller buildings (8,690 sq.  
13 ft., 8,043 sq. ft., 1,837 sq. ft., 575 sq. ft., and 512 sq. ft., respectively). The site  
14 includes approximately 9.51 acres of paved area which is available for parking  
15 and outside operations.

16 **Q. DOES SKRECC INTEND TO MODIFY AND/OR REMODEL THE**  
17 **SUMERSET HOUSEBOATS PROPERTY?**

18 A. Yes. SKRECC intends to modify/remodel approximately 123,124 sq. ft. of the  
19 existing large manufacturing building to enable its use as warehouse, storage,  
20 operations, maintenance, and covered parking area. SKRECC intends to  
21 demolish and remove the remaining 53,096 sq. ft. of the large manufacturing  
22 building (16,339 sq. ft. of the area to be demolished is canopy areas) and replace  
23 same with a two (2) story, 37,064 sq. ft. office building and an uncovered parking



1 area. Finally, SKRECC intends to modify/remodel the five (5) existing, smaller  
2 buildings for use as vehicle maintenance, marketing storage, meter testing lab and  
3 storage, buildings and grounds storage and workshop, and fuel tank storage areas.

4 **Q. PLEASE DESCRIBE IN DETAIL THE 37,064 SQ. FT. OFFICE**  
5 **BUILDING THAT SKRECC PROPOSES TO CONSTRUCT.**

6 A. Office building exterior walls will be insulated concrete forms (ICF) with a brick  
7 veneer. Interior support structure is steel beams and columns with bar joists and a  
8 metal deck for the 2nd floor. The roof on the 1st floor and 2nd floor is to be  
9 comprised of wood trusses with standing seam metal roof drained by exterior  
10 gutters and downspouts. Interior walls will be metal studs and 5/8" fire code  
11 gypsum board. Insulation will be R-46 ceilings and R-26 in exterior walls.  
12 Lighting will be LED in compliance with Kentucky Energy Code. Heating and  
13 cooling will be geothermal. Floor finishes are standard commercial modular  
14 carpet and VCT. Restroom floors are porcelain tile. Ceilings will be 2'x2'  
15 acoustical tile with recessed lighting. Elevator will be ADA compliant.  
16 Community room is planned for a nominal 160-person capacity with table seating.  
17 Remote teller stations will be used for drive-up customers.

18 The 1st floor office area includes space for all operations that interact with the  
19 public and other support services including community room, human resources,  
20 customer service, cashiers, call center, dispatch, energy/marketing, information  
21 management and engineering. A color coded, 1st floor plan is provided detailing  
22 the 27,889 sq. ft. of 1st floor space. (See Exhibit 2 to the Application).

1 The 2nd floor of the office plan accommodates such functions as corporate  
2 communications and key accounts representative, finance and accounting, board  
3 room, the President/CEO space, and additional meeting/training spaces. A color  
4 coded exhibit showing the 2nd floor plan space allocation is provided detailing  
5 the use of the 9,175 sq. ft. of second floor space. (See Exhibit 2 to the  
6 Application).

7 **Q. PLEASE DESCRIBE IN DETAIL THE UNCOVERED PARKING AREA**  
8 **THAT SKRECC WILL UTILIZE AS PART OF THE PROJECT.**

9 A. The uncovered parking area is already constructed as part of the previous  
10 manufacturing facility. Extensive areas of the site are already concrete paved and  
11 these will be retained. A test pit excavated in the parking area by the geotechnical  
12 consultant for the project (CSI of Lexington) revealed the concrete parking  
13 surface to be 6" thick with wire mesh reinforcing cast over a 10" stone layer. A  
14 total of 297 parking spaces will be marked at the front and the sides of the office  
15 building area using the existing paved areas. (See Exhibit 2 to the Application).

16 **Q. PLEASE DESCRIBE IN DETAIL THE WAREHOUSE, STORAGE,**  
17 **OPERATIONS, MAINTENANCE, AND COVERED PARKING AREA**  
18 **THAT SKRECC PROPOSES TO CONSTRUCT.**

19 A. The warehouse, storage, operations, maintenance and covered parking area are all  
20 contained within the footprint of the existing Somerset Houseboats building. The  
21 large showroom and office area at the front of the building will be removed by  
22 demolition. A new end wall at the north end of the building will be constructed to  
23 enclose the remaining 123,124 sq. ft. of space. (See Exhibit 2 to the Application).

1 Office space for SKRECC's construction services, right-of-way, and safety and  
2 training programs will be provided by finishing and remodeling 12,265 sq. ft. of  
3 the former warehouse space. A hard wall will be constructed to separate this  
4 space from the remaining space which will be used for warehouse and covered  
5 parking. This office space will be finished similar to the new office building.

6 In the "middle" portion of the building, 70,897 sq. ft. will be used for warehouse  
7 and field operations. An existing raised dock will be expanded to provide  
8 sufficient storage for materials and parts at truck bed level. Existing outside doors  
9 will be removed and new, smaller doors will be installed at selected locations to  
10 allow service trucks to access the dock at correct locations. Minor improvements  
11 in the building's fire sprinkler system, lighting, heating and ventilation are  
12 anticipated in this warehouse area.

13 The covered parking area is a space of 39,962 sq. ft. contained in the rear of the  
14 former Somerset Houseboats building. This space was previously used for  
15 welding and assembly of houseboat structures to the aluminum boat hull. This  
16 space has room for parking 74 vehicles plus one large trailer or container. In  
17 addition, a separated wash bay area already exists in this space where vehicles can  
18 be washed. The wash bay was previously equipped with an oil/water separator.  
19 Additional ventilation will be added to this area to provide for exhaust of vehicle  
20 emissions. This area will be separated from the middle warehouse area by a hard  
21 wall.

1 **Q. IS THE TOTAL SQUARE FOOTAGE AREA OF THE WAREHOUSE,**  
2 **STORAGE, OPERATIONS, MAINTENANCE, AND COVERED**  
3 **PARKING AREA ACTUALLY GREATER THAN SKRECC NEEDS?**

4 A. Yes. The space requirement study exhibit (Exhibit GR-1) shows a comparison of  
5 existing space versus the results of five different space studies that have been  
6 undertaken since 2002. The last column shows the current MSE proposal for the  
7 Somerset Houseboats location. The new office building including community  
8 room will provide 37,064 sq. ft. of new office space.

9 Because the warehouse area is already constructed, it would be foolish to spend  
10 money to demolish more of the existing space rather than retaining it for  
11 warehouse use with little additional cost. MSE proposes to provide 12,265 sq. ft.  
12 of less expensive office space in this extra warehouse area. This makes the total  
13 office space of all types plus the community room equal to 49,329 sq. ft.

14 **Q. PLEASE DESCRIBE THE PROCESS EMPLOYED TO DETERMINE THE**  
15 **DESIGN AND LAYOUT FOR THE 2014 PROPOSED HEADQUARTERS.**

16 A. The process to determine the design and layout of the 2014 Proposed  
17 Headquarters began with an analysis of SKRECC's needs. MSE visited  
18 SKRECC's existing headquarters facility on numerous occasions to ascertain how  
19 that space was being utilized and in what ways the space was  
20 favorable/unfavorable to the business operations of SKRECC. MSE also met  
21 with various employees of SKRECC, including those in engineering, accounting,  
22 human resources, customer service, and other departments, in an effort to  
23 determine the space requirements and layouts that would best promote effective



1 and efficient operations. Finally, MSE reviewed previous facility analyses  
2 conducted for SKRECC, SKRECC's current and projected needs in terms of  
3 workforce and service facilities, and similar projects undertaken by other utilities.  
4 MSE's experience in the design and construction of facilities comparable to the  
5 2014 Proposed Headquarters was also advantageous in determining an  
6 appropriate design and layout for SKRECC's project. MSE's interior designer  
7 has considerable experience in visioning the proper work flow and staff  
8 communication needs to translate raw space requirements into a plan that allows  
9 smooth, efficient flow of work and employee communication.

10 **Q. PLEASE DESCRIBE IN DETAIL THE MANNER IN WHICH THE 2014**  
11 **PROPOSED HEADQUARTERS WILL BE CONSTRUCTED.**

12 A. SKRECC has selected the traditional "design-bid-build" (DBB) delivery method  
13 for its project. This method puts the design professional on the SKRECC  
14 management team in order to represent SKRECC's maximum interest in the  
15 project outcome. After construction documents are complete and necessary  
16 approvals are obtained, the project will be advertised for competitive bids from  
17 qualified general building contractors (GC). The successful bidder will be  
18 required to provide bid, performance and payment bonds for the full value of the  
19 project. The GC's financial soundness will be reviewed prior to award of a  
20 general construction contract. The contractor will be required to provide  
21 insurance for the project during construction. The contractor will be required to  
22 sign a standard AIA construction agreement. The general contractor will be  
23 required to have SKRECC's approval of any subcontractors used in performing

1 the project work. The Architect will approve materials, workmanship and have  
2 the right to reject deficient work. The Architect will approve pay estimates and  
3 provide certifications to SKRECC for payment. Project work will be inspected at  
4 appropriate times and special testing required by the Kentucky Building Code will  
5 be performed. The Architect will certify substantial completion and perform final  
6 inspections all as required by the AIA standard documents. The first phase of  
7 work will be demolition of the front portion of the existing Somerset Houseboats  
8 building. That will be followed by construction of foundations and a new front  
9 enclosure for the existing building. Work will proceed with erection of the office  
10 building exterior walls, interior frame and then roof enclosure in order to "dry-in"  
11 the work space. Interior finish work, mechanical and electrical will continue  
12 inside each building. Exterior walls will be completed, then interior finishes and  
13 outside site features. The building will be inspected for substantial completion, a  
14 punch list will be issued for completion and commissioning of building systems  
15 will be completed before a certificate of occupancy is received.

16 **Q. PLEASE PROVIDE A DETAILED ESTIMATED TIMELINE FOR**  
17 **CONSTRUCTION OF THE 2014 PROPOSED HEADQUARTERS AND**  
18 **THE IMPORTANT CONSTITUENTS NECESSARY TO MAINTAIN THE**  
19 **TIMELINE.**

20 A. Exhibit GR-3 depicts the project schedule. The schedule assumes that a  
21 construction contract can be awarded by March 16, 2015. The schedule allows 14  
22 months for construction, followed by close-out and commissioning. Final  
23 completion is projected for July 18, 2016. The 14-month construction schedule

1 may be shortened slightly (2 to 3 weeks) if there are delays at the start in order to  
2 maintain the same completion date.

3 **Q. PLEASE DESCRIBE THE PERMITS THAT MUST BE OBTAINED TO**  
4 **CONSTRUCT AND UTILIZE THE 2014 PROPOSED HEADQUARTERS.**

5 A. SKRECC anticipates needing and obtaining a state building permit and a  
6 plumbing permit from the Kentucky Public Protection Cabinet, Dept. of Housing,  
7 Buildings and Construction and local building permits from the City of Somerset  
8 Building Inspector. These will be obtained by the Architect approximately  
9 February 16, 2015. SKRECC will also require approval from the Kentucky  
10 Airport Zoning Commission and the Federal Aviation Administration for  
11 construction of a communications tower. This will be obtained by the tower  
12 contractor approximately February 16, 2015. SKRECC is required to obtain  
13 approval of a Site Development Plan by the Somerset Planning Commission.  
14 This will be obtained by the Architect approximately January 5, 2015.  
15 Applicant's contractor is required to submit a Notice of Intent (NOI) to the  
16 Kentucky Division of Water for control of storm water runoff from a construction  
17 site. This will be submitted by the contractor approximately April 15, 2015.

18 **Q. WHAT IS THE ESTIMATED TOTAL CONSTRUCTION COST OF THE**  
19 **2014 PROPOSED HEADQUARTERS?**

20 A. MSE estimates that the construction cost of the 2014 Proposed Headquarters,  
21 including architect's fee, insurance, and contingency, will be \$10,226,718. When  
22 all other estimated costs of the project are included, except for property

1 acquisition, the net total estimated cost of the 2014 Proposed Headquarters is  
2 \$10,700,000.

3 **Q. PLEASE DESCRIBE THE PROCESS AND METHODOLOGY BY WHICH**  
4 **MSE ARRIVED AT ITS ESTIMATED TOTAL CONSTRUCTION COST**  
5 **OF THE 2014 PROPOSED HEADQUARTERS.**

6 **A.** Because a similarly-designed office building had been previously bid by  
7 SKRECC in 2009, MSE has the advantage of having recent actual bid prices for  
8 the majority of the work required. As shown on the construction cost exhibit  
9 (Exhibit GR-2), the new office building comprises \$6,399,510 of the \$8,889,510  
10 building construction cost estimate (72%). Consequently, it was only necessary  
11 to update the office building bid numbers by using annual building cost index  
12 number increases to reflect inflation in building costs from 2009. The  
13 Engineering News Record (ENR) construction costs, the RS Means Cost index  
14 and the Kentucky Transportation Cabinet's annual average bid prices were used  
15 for this purpose. For the remainder of the construction work (\$2,490,000) these  
16 costs were estimated by a more basic method of identifying the preliminary  
17 quantities of work to be done and assigning a unit price to the type of work based  
18 on conferring with material suppliers for the type of work, previous bid  
19 experience by MSE on other buildings, or by the RS Means cost guides. Exhibit  
20 GR-2 is provided summarizing the construction cost estimate.

21 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

22 **A.** MSE has been engaged by SKRECC to serve as architect for the 2014 Proposed  
23 Headquarters. Upon analysis of SKRECC's existing headquarters facility,



1 discussion with SKRECC, and review of similar projects, MSE has prepared a  
2 preliminary design of the 2014 Proposed Headquarters and preliminarily  
3 estimates its total construction cost at \$10,700,000. The 2014 Proposed  
4 Headquarters is to be sited upon the Somerset Houseboats Property, which  
5 property is well-suited for the project. SKRECC is the beneficiary of a large  
6 amount of additional warehouse/operations space by virtue of it already being in  
7 place as part of the facility. SKRECC also benefits from a greatly-reduced scope  
8 for site work and paving as that part of the project is also in place. SKRECC's  
9 operations are suited for the tall building and its existing dock storage area which  
10 will be utilized with minimum alteration. The project cost is expected to be  
11 significantly below the cost of the 2008 and 2010 Proposed Headquarters projects  
12 while nearly 50% more useable space is being achieved. MSE estimates that  
13 upon completion of the project, SKRECC will have a very functional, convenient  
14 and attractive headquarters facility for only roughly \$60/sq. ft., which figure  
15 includes the five (5) existing, smaller buildings which will be modified and used  
16 as part of the facility. This cost is much less than the current average cost per sq.  
17 ft. for new construction of similar facilities by other organizations. It is MSE's  
18 opinion that, by any measure, a cost-benefit analysis of this project strongly  
19 favors the construction of the 2014 Proposed Headquarters as requested by  
20 SKRECC.

21 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

22 A. Yes.

	EXISTING FACILITY	ROY COWAN 2002 STUDY	CDS 2003 STUDY	ROY COWAN 2008 STUDY	TATE, HILL, JACOBS 2009 STUDY	TATE, HILL, JACOBS 2010 REVISED	MSE PROPOSED FACILITY 2014 STUDY
Office Space	27,035	35,750	46,625	49,200	41,160	41,160	37,064
Warehouse, Vehicle Maintenance Office & Covered Area	44,710	57,000	82,764	67,800	62,662	60,862	102,819*
Community Training Room	2,850	4,000	*Included in Office Space	4,900	4,900	4,900	—
<b>Subtotal</b>	<b>74,595</b>	<b>96,750</b>	<b>129,389</b>	<b>121,900</b>	<b>108,722</b>	<b>106,992</b>	<b>139,883</b>
Cold Storage Parking	16,230	10,000	40,656		25,390	15,390	39,962
<b>Total</b>	<b>90,825</b>	<b>106,750</b>	<b>170,045</b>	<b>121,900</b>	<b>134,112</b>	<b>122,312</b>	<b>179,845**</b>

\*Includes 19,657 sq. ft. in 5 existing small buildings and 12,265 sq. ft. of renovated office space

\*\*142,781 sq. ft. in existing buildings



South Kentucky RECC Somersat HQ Building  
Preliminary Estimated Construction Cost

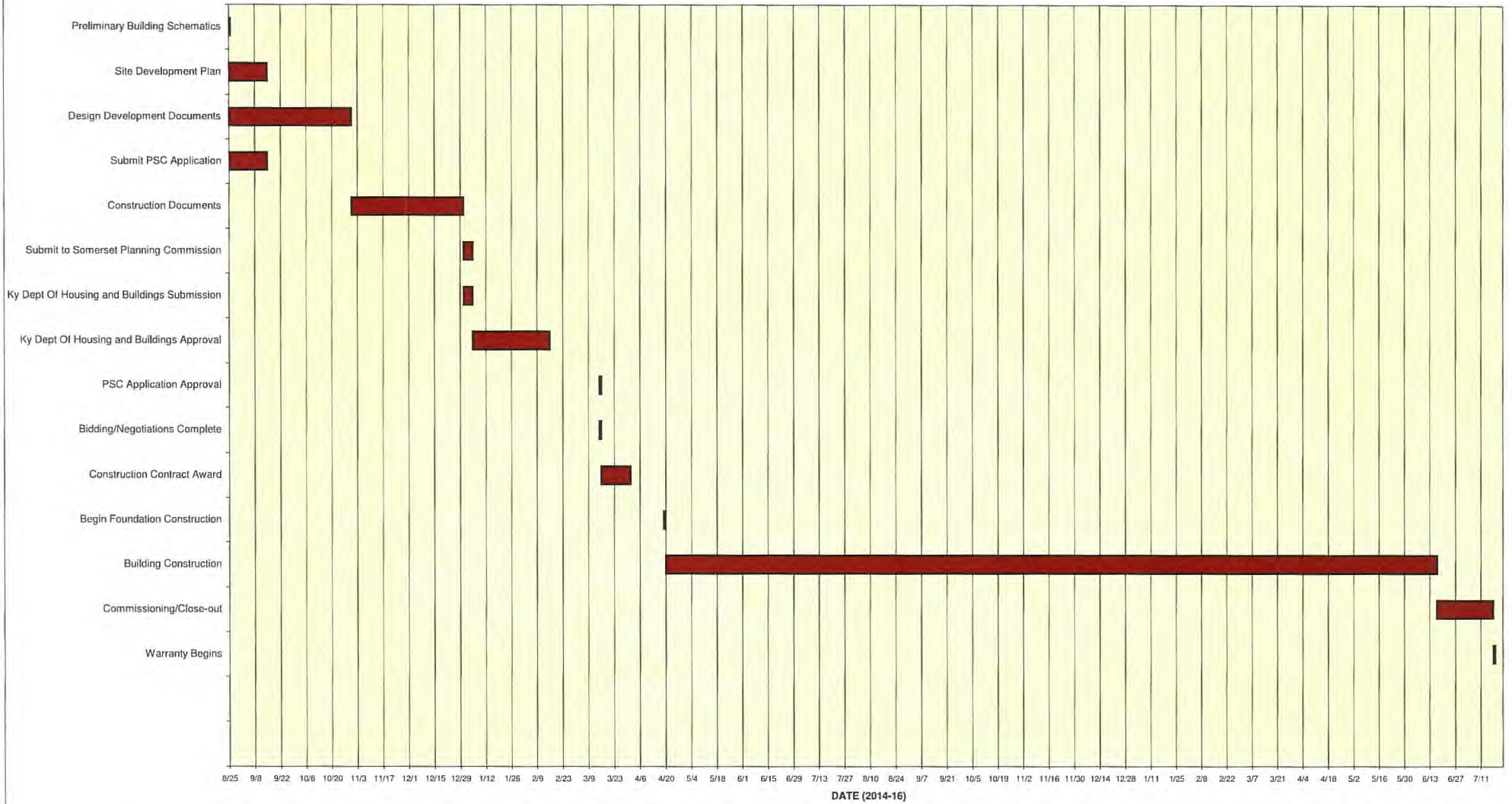
Project Construction Division	Office Area	Operations Area	Total
1 General Requirements	\$ █████	\$ █████	\$ █████
2 Site Construction	\$ █████	\$ █████	\$ █████
Grade and Drain			
Paving			
Earthwork for Concrete			
Sinkhole Mitigation			
Sidewalks			
Termite Control			
Landscape			
Courtyard			
Site Furnishings			
Demolition			
3 Concrete	\$ █████	\$ █████	\$ █████
Foundations and slabs			
4 Masonry	\$ █████	\$ █████	\$ █████
5 Metals	\$ █████	\$ █████	\$ █████
Steel			
Railings			
Steel Trusses			
Column Cover			
Wall Panels			
6 Wood and Plastics	\$ █████	\$ █████	\$ █████
Cabinets			
Decking			
Carpentry			
7 Thermal and Moisture Protection	\$ █████	\$ █████	\$ █████
Roofing			
Caulking			
Insulation			
Air Barrier			
Water repellent			
Roof Repairs			
8 Doors and Windows	\$ █████	\$ █████	\$ █████
Doors, Frames, Hardware			
Overhead Coiling Doors			
Glazing			
9 Finishes	\$ █████	\$ █████	\$ █████
Gypsum, Ceiling, Flooring			
Tile and Terrazo			
Painting			
10 Specialities	\$ █████	\$ █████	\$ █████
Hoist			
11 Equipment	\$ █████	\$ █████	\$ █████
Banking Equipment			
Dock Leveler			
Dock Bumper			
12 Furnishings	\$ █████	\$ █████	\$ █████
Floor Mats			
Roller Shades			
13 Special Construction	\$ █████	\$ █████	\$ █████
14 Conveying Systems	\$ █████	\$ █████	\$ █████
Elevator			
15 Mechanical	\$ █████	\$ █████	\$ █████
Mechanical HVAC			
Fire Protection			
Plumbing			
16 Electrical	\$ █████	\$ █████	\$ █████
SubTotal Construction	\$ 6,399,510	\$ 2,490,000	\$ 8,889,510
<b>Non-Construction Items</b>			
Bond/Insurance			\$ 196,990
Architectural Service Fees			\$ 640,218
Reserve for contingencies			\$ 500,000
Project Subtotal			\$ 10,226,718
<b>Items Not In Original Construction Bids</b>			
Fuel Tanks			\$ 75,000
Communications Tower and Equipment			\$ 110,000
Solar Panels			\$ 60,000
LED Lighting			\$ 30,000
Furnishings			\$ 198,282
Legal Expenses			\$ 10,000
<b>TOTAL PROJECT BUDGET</b>			<b>\$ 10,700,000</b>

Prepared By: MSE of Kentucky, Inc.  
Revised: September 30, 2014





PROJECT SCHEDULE FOR SKRECC - SOMERSET HQ FACILITY





COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

AN APPLICATION OF SOUTH KENTUCKY )  
RURAL ELECTRIC COOPERATIVE )  
CORPORATION FOR A CERTIFICATE OF )  
PUBLIC CONVENIENCE AND NECESSITY )  
TO CONSTRUCT A NEW HEADQUARTERS )  
FACILITY AND FOR APPROVAL TO TRANSFER )  
OWNERSHIP OF CERTAIN ASSETS OR, IN )  
THE ALTERNATIVE, A DETERMINATION THAT )  
SUCH APPROVAL IS UNNECESSARY )

CASE NO. \_\_\_\_\_


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VERIFICATION OF GLEN ROSS

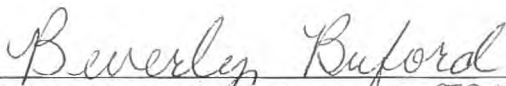
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COMMONWEALTH OF KENTUCKY )  
COUNTY OF FAYETTE )

Glen Ross, President of MSE of Kentucky, Inc., being duly sworn, states that he has read the foregoing prepared testimony and that he would respond in the same manner to the questions if so asked upon taking the stand, and that the matters and things set forth therein are true and correct to the best of his knowledge, information and belief.

  
\_\_\_\_\_  
Glen Ross

The foregoing Verification was signed, acknowledged and sworn to before me this 7<sup>th</sup> day of October, 2014, by Glen Ross.

  
\_\_\_\_\_  
NOTARY PUBLIC, Notary # 504396  
Commission expiration: 2/19/2018