

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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DEC 04 2014

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

RESPONSE TO COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION
TO SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION
DATED NOVEMBER 20, 2014

PSC CASE NO. 2014-00355

SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION
COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 11/20/14

RESPONSIBLE PARTY: Allen Anderson

Request 1. Refer to the Application, redacted paragraph 20.

- a. Provide any appraisals or other documentation that supports the purchase price of the Sumerset Houseboats property.
- b. Provide any appraisals or other documentation that supports the amount that is represented as South Kentucky's interest in the Northern Property.
- c. Explain the decision to transfer ownership in the Northern Property as described in the application rather than to make it available for sale in the local real estate market.

Response 1(a). Attached hereto as Exhibit 1(a) [PSC Request No. 1, Pages 3-90 of 165] is an appraisal which reflects the market value of the Sumerset Houseboats property as of June 2, 2014. Please note that Exhibit 1(a) is confidential in nature and is subject to a Motion for Confidential Treatment filed contemporaneously with this Response.

Response 1(b). Attached hereto as Exhibit 1(b) [PSC Request No. 1, Pages 91-165 of 165] is an appraisal which reflects the market value of the Northern Property as of August 28, 2014. Please note that Exhibit 1(b) is confidential in nature and is subject to a Motion for Confidential Treatment filed contemporaneously with this Response.

Response 1(c).

[REDACTED]

EXHIBIT 1(a)

[PSC Request No. 1, Pages 3-90 of 165]

AND

EXHIBIT 1(b)

[PSC Request No. 1, Pages 91-165 of 165]

are confidential in nature, subject to a Motion for Confidential Treatment filed December 4, 2014, and not included in this public/redacted version of the Response.

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**SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION
COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 11/20/14**

RESPONSIBLE PARTY: Glen Ross

Request 2. Refer to the Application, paragraph 22. Describe in detail South Kentucky's \$60,000 entry for solar panels.

Response 2. South Kentucky has a significant interest in the development and implementation of renewable energy resources both as a means of producing clean, reliable and affordable energy and as a tool to inform and educate its Members regarding the types and benefits of such resources. South Kentucky has determined that the best way to accomplish both of these objectives is to install a modest 30kW solar panel array at the new headquarters location.

In terms of cost, the solar power budget from the solar energy provider includes the following items for a 30kW solar power system:

- Solar power system array (solar modules or panels)
- Solar power system grid-tie inverter
- Solar panel mounting system
- Balance of system components
- Single and three-line electrical drawings
- Design assistance and technical support
- Power produced display

The \$60,000 net cost for purchase and installation of the solar power system is calculated as follows:

Installed Estimate	\$80,000
USDA Rural Energy for America Grant (25%)	(\$20,000)
Net Cost for Solar Power System Budget	\$60,000

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**SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION
COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 11/20/14**

RESPONSIBLE PARTY: Glen Ross

Request 3. Refer to the application, paragraph 25.

- a. Describe fully the alternatives to the 2014 Proposed Headquarters that South Kentucky reviewed and considered.
- b. Provide detailed cost estimates of the alternatives identified above.

Response 3(a). South Kentucky's Board of Directors considered the following four (4) alternatives:

- Alternative 1 – Maintenance of the status quo by remaining at the current N. Main Street location in Somerset.
- Alternative 2 – Construct a new headquarters facility at the Northern Property as had been proposed previously in 2009.
- Alternative 3 – Utilize the Somerset Houseboats facility and relocate all office and support operations into the houseboat manufacturing building footprint.
- Alternative 4 – Utilize the Somerset Houseboats facility and relocate all support operations into the manufacturing facility and remove the existing showroom/office portion of the facility and construct a new office building at the location of the removed showroom/offices (*i.e.*, the 2014 Proposed Headquarters).

Response 3(b).

- Alternative 1 – Detailed estimates for Alternative 1 were not prepared as South Kentucky considers this option to be untenable. It has been noted that the lack of available space for expansion prevents the addition of approximately 22,300 s.f of office space which is badly needed (current office is 27,035 s.f.); the existing community room (2,850 s.f.) is inadequate for planned events; some support buildings such as the meter shop are dilapidated and will require replacement in the short term; warehouse storage and related covered space (currently 44,710 s.f.) is very inadequate and requires outside storage of many items; storage is being used in adjacent residential buildings which is not secure and may be unsafe; several older additions to the office space have left the office inefficient and communications are difficult; there is very limited room on the site for maneuvering, parking, loading/unloading and outside storage; and, the original facility is over 50 years old and is reaching the end of its useful life for South Kentucky’s unique purposes.¹
- Alternative 2 – The 2009 bids for the new facility to be constructed at the Northern Property were updated in September 2013 and show an estimated construction cost of \$16,840,967. An updated cost opinion reflecting the 2009 bids and the 2013 adjusted figures is attached hereto as Exhibit 3(b)-1 [PSC Request No. 3, Page 4 of 7]. The RS Means building index was used to update building component bids and the

¹ The Commission determined in Case No. 2008-00370 that South Kentucky had “demonstrated that its existing headquarters facility is inadequate and a new headquarters facility is needed.” 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.” See *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*, Order, Case No. 2008-00370 (Ky. P.S.C. Oct. 15, 2009).

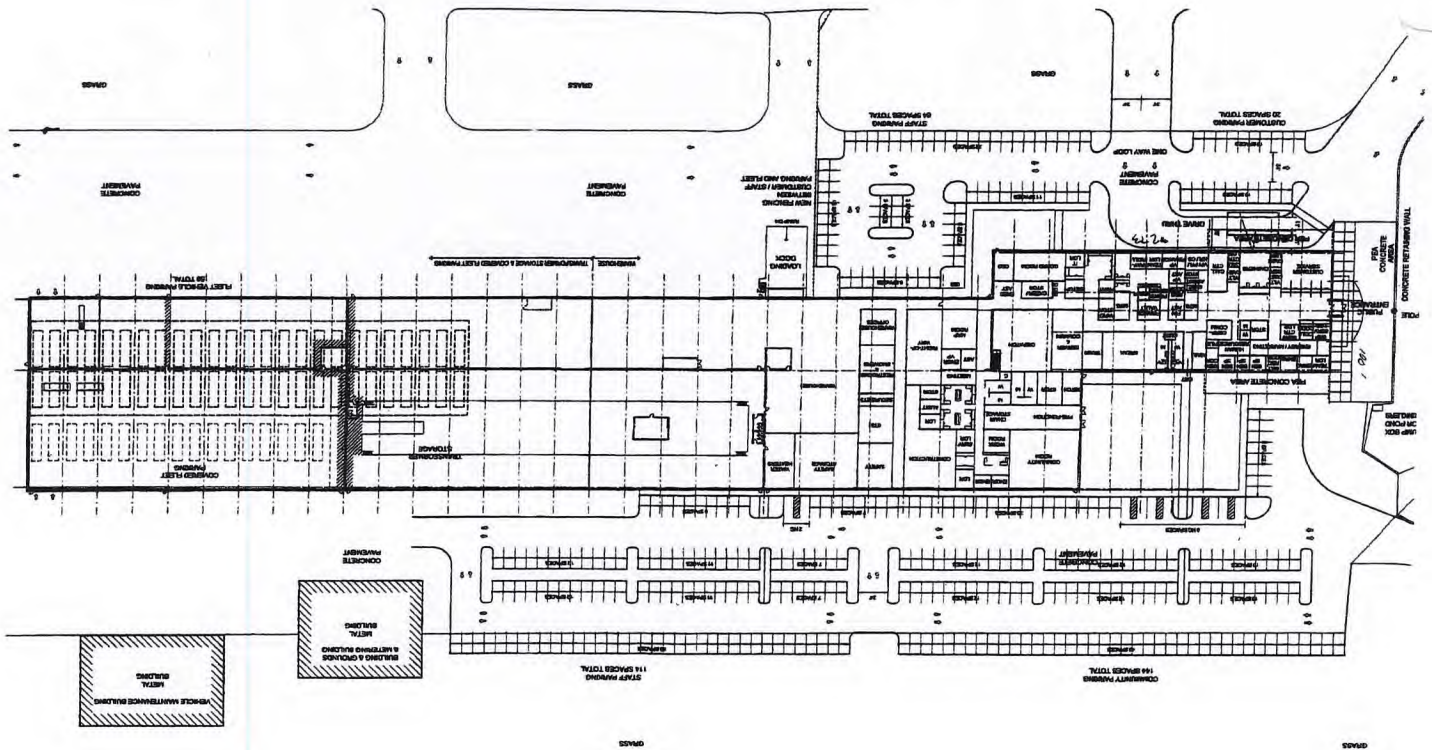
Kentucky Transportation Cabinet – Historic Construction cost database was used to adjust site and civil construction related items.

- Alternative 3 – In February 2012, Tate Hill Jacobs Architects prepared a plan for using the Somerset Houseboats facility by relocating all of South Kentucky’s operations into the houseboat manufacturing facility. A copy of this architectural plan is attached hereto as Exhibit 3(b)-2 [PSC Request No. 3, Page 5 of 7]. Tate Hill Jacobs stated in a letter dated February 13, 2012, that the cost for renovation of the building would be approximately \$10,000,000. A copy of this letter is attached hereto as Exhibit 3(b)-3 [PSC Request No. 3, Pages 6-7 of 7]. Tate Hill Jacobs proposed in the attached letter to provide a detailed preliminary cost estimate for a fee of \$12,000, which was not authorized.
- MSE of Kentucky, Inc., has prepared a preliminary cost estimate for the 2014 Proposed Headquarters at the Somerset Houseboats location. The construction cost estimate is \$10,226,718 and the total project budget is \$10,700,000. For a summary chart containing the specifics of the cost estimate, please refer to Exhibit GR-2 to the Direct Testimony of Glenn Ross, which Direct Testimony is attached as Exhibit 5 to South Kentucky’s Application.

**SOUTH KENTUCKY RECC NORTHERN SITE BUILDING COMPLEX
UPDATED COST OPINION
September 2013**

<u>Project Division</u>	<u>2009 Bid</u>	<u>2013 ADJUSTED</u>
1 General Requirements	\$ 448,000	\$ 480,000
2 Site Construction	\$ 2,838,139	\$ 3,198,401
3 Concrete	\$ 1,575,950	\$ 1,733,545
4 Masonry	\$ 535,900	\$ 593,334
5 Metals	\$ 578,141	\$ 657,924
6 Wood and Plastics	\$ 238,755	\$ 264,541
7 Thermal and Moisture Protection	\$ 745,630	\$ 786,640
8 Doors and Windows	\$ 504,615	\$ 542,461
9 Finishes	\$ 988,919	\$ 1,054,284
10 Specialties	\$ 112,148	\$ 124,260
11 Equipment	\$ 48,735	\$ 45,134
12 Furnishings	\$ 47,890	\$ 52,741
13 Special construction	\$ 917,390	\$ 1,043,531
14 Conveying Systems	\$ 44,590	\$ 49,673
15 Mechanical	\$ 2,648,669	\$ 2,935,833
16 Electrical	\$ 1,773,188	\$ 1,964,692
<i>SubTotal Construction</i>	\$ 14,032,989	\$ 15,526,975
<i>Bond/Insurance</i>	\$ 288,080	\$ 319,600
<i>Design Fees</i>	\$ 887,120	\$ 887,120
<i>Contractor's Fee</i>	\$ 807,072	\$ 807,072
Total Project Bid Cost	\$ 16,016,181	\$ 17,540,967
Negotiations w/ Subcontractors	\$ (600,000)	\$ (600,000)
Contractor Fee Reduction	\$ (100,000)	\$ (100,000)
TOTAL PROJECT BUDGET	\$ 15,316,181	\$ 16,840,967
Office Building Construction (46,060 s.f.)	\$ 6,719,760	\$ 7,359,500
per sq. ft.	\$ 145.89	\$ 159.78
Office Building Constr & Non-Constr(46,060 s.f.)	\$ 157.60	\$ 173.30
per sq. ft.	\$ 125.22	\$ 137.69
Gross Building Area (122,312 s.f.)	\$ 125.22	\$ 137.69
per sq. ft.	\$ 125.22	\$ 137.69

Prepared By: MSE of Kentucky, Inc.
Revised: May 21, 2014



February 13, 2012

SKRECC
Somerset, KY
925-929 North Main Street
Somerset, KY 42502

ATTN: Mr. Allen Anderson, CEO

RE: Renovation of Somerset Houseboat Facility

Tate·Hill·Jacobs: Architects

346 East Main Street • Lexington • Kentucky • 40507
Telephone 859·252·5994 Facsimile 859·253·1607

Dear Allen,

Thank you for the invitation to submit a proposal to assist SKRECC in evaluating the feasibility of renovating the existing Somerset Houseboat Facility on Parkers Mill Road in Somerset to replace the current SKRECC operations located on North Main Street.

It is my understanding SKRECC's primary concern is identifying the cost to renovate Somerset Houseboat facility to a level of quality, energy efficiency, and life expectancy that would be necessary to serve as the new, and permanent SKRECC headquarters. Based on the conceptual plan studies developed in August, 2011 and the "quality characteristics" of the Science Hill project my current opinion is that renovation costs would be in the range of \$10 million, excluding the purchase cost of the property.

However, to provide you with more than an "educated guess" I propose to work with SKRECC representatives during a 2-day design charrette to confirm, and define program requirements for the renovation project which will be used as the basis of establishing a preliminary construction cost budget.

The 2-day Charrette services include:

1. Preparation. Half-Day meeting with SKRECC representatives and Margaret Jacobs to prepare for the 2-day charrette including review of conceptual plans prepared in August of 2011.
2. Day 1. Morning meeting at the project site for all design professionals to familiarize themselves with existing conditions.
3. Day 1. Afternoon meeting at SKRECC. Each design professional will be given the opportunity to ask questions of RECC representatives in an effort to confirm and define qualitative and quantitative program scope and requirements.

4. Day 2. Morning meeting at SKRECC. Each design professional will present a written narrative of the scope of work for each specific construction system and a recommended construction cost budget.
5. Day 2. Afternoon meeting at SKRECC. SKRECC representatives will be given an opportunity to ask questions and identify areas where optional alternate pricing options are desirable.

Upon completion of the 2-day charrette, the architect will prepare a brief summary report documenting the findings and results of the 2-day charrette.

Additionally, the Architect and Landscape Architect will prepare a rendered site plan and 3D building image reflecting design solutions discussed during the 2-day charrette.

The following design professionals will participate in the 2-day charrette:

John Carman: Carman: Landscape Design – including site utilities and civil
Craig Brown: Brown & Kubican: structural design
Margaret Jacobs: Tate Hill Jacobs Architects: architectural design
Michelle Howlett: Magna Engineers: Electrical engineering design
Jim Martin: Magna Engineers: Mechanical engineering design

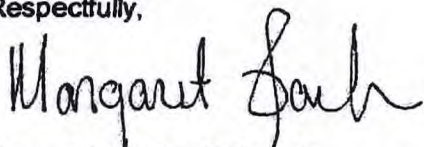
The cost of the 2-day charrette and half-day preparation and summary report is \$12,000.00. This includes the services of the five design professionals identified above.

The cost for the rendered site plan and 3D building image is in addition to the 2-day charrette and is \$12,000.00.

If SKRECC chooses to proceed with full design services and preparation of construction documents for a Design-Bid-Build project delivery method the cost of services will be based on 6.5% of the construction cost budget identified in the feasibility report. This cost assumes record drawings of the existing facility will be made available to the design team. This cost does not include a site survey or geotechnical investigation services. The cost of design services would be less using a Design-Build delivery method.

Thank you again for the opportunity to submit this proposal and please do not hesitate to call if you have questions.

Respectfully,



Margaret Jacobs, Principal

C: John Carman
Craig Brown
Michelle Howlett
file

PSC CASE NO. 2014-00355

**SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION
COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 11/20/14**

RESPONSIBLE PARTY: As to 4(a), Allen Anderson; as to 4(b), Michelle D. Herrman

Request 4. Refer to the Application, page 7, footnote 6.

- a. Provide the estimated market value of South Kentucky's current headquarters facility and the basis for this amount. Provide documentation supporting this amount.
- b. Explain how South Kentucky plans to treat any proceeds from the sale of the current headquarters facility.

Response 4(a). The estimated market value of South Kentucky's existing headquarters facility is detailed in an appraisal of the property conducted by Mike Humfleet Appraisal Service on or about August 15, 2013. A copy of this appraisal is attached hereto as Exhibit 4(a) [PSC Request No. 4, Pages 2-118 of 118]. Please note that Exhibit 4(a) is confidential in nature and is subject to a Motion for Confidential Treatment filed contemporaneously with this Response.

Response 4(b). South Kentucky plans to use any proceeds from the sale of the current headquarters facility to offset the cost of the new headquarters facility if the timing allows for such. If the sale proceeds are received after the new facility expenses have been paid, the funds will be utilized to pay the debt service costs associated with the new headquarters facility. Similarly, these funds would assist in deferring future borrowing needs.

EXHIBIT 4(a)

[PSC Request No. 4, Pages 2-118 of 118]

is confidential in nature, subject to a Motion for Confidential Treatment filed December 4, 2014, and not included in this public/redacted version of the Response.

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SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION
COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 11/20/14

RESPONSIBLE PARTY: Michelle D. Herrman

Request 5. Refer to the Application, paragraph 39.

- a. Explain whether South Kentucky's 2010-2013 work plan included a new headquarters facility.
- b. If a new headquarters facility was not included in the 2010-2013 work plan, explain why South Kentucky has the funds available for the proposed headquarters facility that were originally scheduled to be spent for projects included in the work plan.

Response 5(a). South Kentucky's 2010-2013 work plan did not include the construction of a new headquarters facility.

Response 5(b). The structure of work plan loans with the Rural Utilities Service (RUS) requires that the cooperative expend internal funds on the work plan projects and submit documentation to support their completion. Upon satisfactory submission of the documentation, the loan funds then become available for draw on a cost reimbursement basis.

The funds are available from RUS because planned projects were satisfactorily completed. The work plan had an original completion date of December 2013. However, due to growth on South Kentucky's system being slower than expected the work plan

was extended. The slower pace of the work plan projects, along with effective financial management on the part of South Kentucky, allowed for operational revenue to support a greater portion of the capital work plan projects than had originally been projected. Thus, loan funds had been encumbered but were not yet needed to be drawn down to support operational cash flow.

Additionally, the contract terms of the work plan loan, which require that the funds be drawn down not later than March 1, 2016, also impacted South Kentucky's decision to utilize these funds. Current financial projections indicate that South Kentucky would not need these funds for operational cash flow by the required draw down date. Similarly, South Kentucky would be unable to submit a new work plan loan request to RUS until the funds from the 2010-2013 work plan loan are drawn down. The drawdown of these funds at this time allow South Kentucky to move closer to submission of its 2015-2018 work plan and capture the low interest rates that are available at this time.

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**SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION
COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 11/20/14**

RESPONSIBLE PARTY: Michelle D. Herrman, Jim Adkins

Request 6. Refer to the Application, paragraph 41. Has South Kentucky determined when a rate increase would be necessary based only on the construction of the proposed headquarters facility, and if so, when would that occur?

Response 6. South Kentucky, with the assistance of its rate consultant, Jim Adkins, prepared a 10-year financial forecast. The forecast was prepared first with a base forecast that did not include the construction cost of the 2014 Proposed Headquarters facility. Then the base forecast was modified to include the additional costs due to the 2014 Proposed Headquarters facility. The forecast was projected through 2023 as shown in Exhibit MDH-1 to the Direct Testimony of Michelle D. Herman, which Direct Testimony is attached as Exhibit 4 to South Kentucky's Application. The projection that includes the 2014 Proposed Headquarters facility indicates that margins will be less; however, it does not indicate, based on the assumptions employed, that a rate increase will be needed through the 10-year forecast period.

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**SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION
COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 11/20/14**

RESPONSIBLE PARTY: Glen Ross, Allen Anderson

Request 7. Refer to the Direct Testimony of Allen Anderson (“Anderson Testimony”), page 12, lines 8 through 14.

- a. Provide a quantitative analysis of the cost savings in favor of the Somerset Houseboats Property.
- b. If the entire headquarters project as proposed were to be constructed on the Northern Property, provide the estimated total project cost.

Response 7(a). When the cost estimate for the Northern property project is updated to the same timeframe as the Somerset Houseboats project, a large cost savings in favor of the Somerset Houseboats project is evident. The construction cost savings is \$16,840,967 minus \$10,226,718 which equals \$6,614,249. There are some extra items which were not included in the original Northern property bids. These are for fuel tanks, a communications tower, solar panels, LED lighting and furnishings. The estimated total for these is \$473,282. However, this amount is added to both estimates leaving the difference of \$6,614,249 unchanged.

The project for the Northern property proposes a new facility totaling 122,312 s.f. (46,060 s.f. office) at an estimated construction cost of \$137.69 per s.f. for all space.

The Somerset Houseboats project proposes a facility totaling 179,845 s.f. (includes 37,064 s.f. of new office space and 19,657 s.f. in five existing small support buildings) at an estimated construction cost of \$56.86 per s.f. for all space. This significant reduction in effective unit construction cost is because of the large amount of space acquired and retained for use by the purchase of the Somerset Houseboats buildings. The new office building construction portion only at the Somerset Houseboats property is estimated to be \$6,399,510 for 37,064 s.f., or \$172.66 per s.f.

Response 7(b). The 2009 bids for the replacement facility at the North property were updated in September 2013 and show an estimated construction cost of \$16,840,967. *See* Exhibit 3(b)-1 [PSC Request No. 3, Page 4 of 7].

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**SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION
COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 11/20/14**

RESPONSIBLE PARTIES: Allen Anderson

Request 8. Refer to the Anderson Testimony, page 14, lines 8 through 23.

- a. Identify other architectural and engineering firms that were considered for this project.
- b. Describe their shortcomings when compared to MSE.
- c. What part did cost play in the decision to hire MSE?

Response 8(a). In 2012, before South Kentucky's previous Board of Directors made the ultimate decision not to construct a new headquarters facility, Tate Hill Jacobs Architects gave an evaluation on how best to utilize the existing Somerset Houseboats Facility and designed a basic floor plan for South Kentucky. Tate Hill Jacobs Architects' proposal was a total renovation of the facility that would not have accommodated most of the energy efficiency features that South Kentucky wanted to consider and are being incorporated by MSE in the present design. That 2012 proposal would have been approximately \$10,000,000, not including the purchase of the property. Tate Hill Jacobs Architects was also the architectural firm that designed the facility on the Northern Property site that was approved in 2010. This firm was good to work with, but when looking at the options for South Kentucky's new Board of Directors for the building opportunity that offered the most value, MSE was a firm with which

South Kentucky was familiar and had worked with before. The Board of Directors hired MSE to conduct the evaluation of the possible options. Through this process, MSE gave South Kentucky many new ideas and offered fair and objective evaluations of the various options. MSE was then hired by the Board of Directors to complete a design of the Somerset Houseboat facility with a combination of renovation and new construction.

Response 8(b). Please see Response 8(a).

Response 8(c). MSE's fees were comparable to other architectural/engineering firms which South Kentucky has used in the past.

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**SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION
COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 11/20/14**

RESPONSIBLE PARTIES: Allen Anderson, Ruby Patterson

Request 9. Refer to the Anderson testimony, page 15, line 5. Confirm that the estimated construction cost noted is \$10,226,718.

Response 9. The estimated construction cost for the current proposal is confirmed to be \$10,226,718.

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SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION
COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 11/20/14

RESPONSIBLE PARTIES: Michelle D. Herrman

Request 10. Refer to the Anderson testimony, page 20, line 4. Provide a detailed “all-in cost” analysis of the current proposal, including the land and property costs, that substantiate the listed savings of the current proposal as it compares to the prior 2010 proposed headquarters building.²

Response 10. The comparison on the following page is submitted to substantiate the approximately [REDACTED] estimated reduction in cost of the current proposal as compared to the submitted costs used in the 2010 proposed headquarters building. It should be noted that the estimated dollar reduction of the current proposal is actually [REDACTED] less than the 2010 proposal.

² Case No. 2008-00371, *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* (Ky. PSC May 11, 2010).

Projected Headquarters Facility Cost Comparison

Project Division	2010 Proposed headquarters building (Per 2009 Bid)	Current Proposed headquarters building (Per GR-2)
General Requirements	\$ 440,000	\$ [REDACTED]
Site Construction	2,839,159	[REDACTED]
Concrete	1,575,950	[REDACTED]
Masonry	535,500	[REDACTED]
Metals	578,141	[REDACTED]
Wood and Plastics	238,755	[REDACTED]
Thermal and Moisture Protection	745,630	[REDACTED]
Doors and Windows	504,615	[REDACTED]
Finishes	989,919	[REDACTED]
Specialties	112,148	[REDACTED]
Equipment	40,735	[REDACTED]
Furnishings	47,600	[REDACTED]
Special Construction	917,390	-
Conveying Systems	44,590	[REDACTED]
Mechanical	2,649,669	[REDACTED]
Electrical	1,773,188	[REDACTED]
Bond/Insurance	289,000	196,990
Design Fees	887,120	640,218
Contractor's Fee	807,072	-
Negotiations with Subcontractors	(600,000)	-
Contractor Fee Reduction	(100,000)	-
Reserve for Contingencies	-	500,000
SUBTOTAL CONSTRUCTION:	\$ 15,316,181	\$ 10,226,718
	Difference:	(5,089,463)
<u>Items Not in Original Construction Bids</u>		
Fuel Tanks	75,000	75,000
Communications Tower and Equipment	110,000	110,000
Solar Panels	60,000	60,000
LED Lighting	30,000	30,000
Furnishings	188,282	188,282
Legal Expenses	10,000	10,000
	\$ 473,282	\$ 473,282
TOTAL CONSTRUCTION:	\$ 15,789,463	\$ 10,700,000
	Difference:	\$ (5,089,463)
[REDACTED]	1,206,000	[REDACTED]
[REDACTED]	-	[REDACTED]
[REDACTED]	-	[REDACTED]
TOTAL PROJECT BUDGET:	\$ 16,995,463	\$ [REDACTED]
	Difference:	\$ [REDACTED]

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**SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION
COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 11/20/14**

RESPONSIBLE PARTY: Michelle D. Herrman

Request 11. Refer to the Direct Testimony of Michelle D. Herrman (“Herrman Testimony”), page 5, lines 11 through 16, and page 6, lines 1 through 9. Provide any and all available documentation or analysis supporting the costs of the items described.

Response 11. Cost and explanatory detail for the referenced items is provided at Pages 2-4 of 4 of this Response. Please also refer to Exhibit GR-2 to the Direct Testimony of Glenn Ross, which Direct Testimony is attached as Exhibit 5 to South Kentucky’s Application.

**South Kentucky RECC Somerset HQ Building
Estimated Cost**

<u>Project Division</u>	<u>Office Area</u>	<u>Operations Area</u>	<u>Total</u>
1 General Requirements	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
2 Site Construction	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
3 Concrete	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
4 Masonry	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
5 Metals	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
6 Wood and Plastics	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
7 Thermal and Moisture Protection	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
8 Doors and Windows	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
9 Finishes	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
10 Specialities	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
11 Equipment	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
12 Furnishings	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
13 Special Construction	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
14 Conveying Systems	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
15 Mechanical	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
16 Electrical	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Sub Total	\$ 6,399,510	\$ 2,490,000	\$ 8,889,510
Bond/Insurance			\$ 196,990
Architectural Service Fees			\$ 640,218
Reserve for contingencies			\$ 500,000
		Sub Total Construction	\$ 10,226,718
Fuel Tanks			\$ 75,000
Communications Tower and Equipment			\$ 110,000
Solar Panels			\$ 60,000
LED Lighting			\$ 30,000
Furnishings			\$ 188,282
Legal Expenses			\$ 10,000
[REDACTED]			\$ [REDACTED]
[REDACTED]			\$ [REDACTED]
[REDACTED]			\$ [REDACTED]
		TOTAL PROJECT BUDGET	\$ [REDACTED]

Specific detail relating to the following is provided.

Fuel Tanks

Research was accomplished regarding two above-ground 8,000 gallon fuel storage, Double-Wall Horizontal- One Product, tanks. Quotes were emailed from a North Carolina supplier for the tanks, not including installation. Two tanks would be required, one for gasoline fuel and one for diesel fuel. The estimated costs are \$34,400 each. It is South Kentucky's intention to house these tanks in the existing structures on the building site. The cost for tank installation and site preparation was estimated to be \$6,200. The total for tank and installation costs is estimated at \$75,000.

Communications Tower and Equipment

South Kentucky received a quote from a Kentucky supplier for a 100 foot tower, installed at a cost of \$33,000. The cost for electronic equipment was quoted at an estimated installed cost of \$70,225. These amounts were rounded to the total of \$110,000.

Solar Panels

Please refer to South Kentucky's Response to Request No. 2 herein.

LED Lighting

South Kentucky received assistance from AFA Associates and their mechanical engineers to estimate the cost of the LED Lighting. Information provided from them indicates that LED lights would add \$0.50 per square foot to the building cost above the usual lighting cost. This

cost was multiplied by the square footage of the new and renovated office space (49,329 s.f.) to reach an estimated total cost of \$24,650. This amount was rounded up to \$30,000.

Furnishings

South Kentucky received a quote from ID + A in Lexington, Kentucky. They based their estimate on a 58,235 s.f. facility with no current furnishings. Their estimate was \$450,000. Subsequent to their bid, the size of South Kentucky's proposed facility was reduced. The comparative reduction in square footage would reduce their estimate to \$381,313.17. South Kentucky believes that bids received in a competitive environment would result in savings. Similarly, South Kentucky intends to utilize newer furnishings that are in place at the current headquarters facility in the 2014 Proposed Headquarters facility. Based on these considerations, the estimated cost of furnishings is \$188,282.

Legal Expenses

The estimated \$10,000 cost includes the costs for filing permits and supporting documents regarding the building acquisition and construction process.

[REDACTED]

[REDACTED]

[REDACTED]

PSC CASE NO. 2014-00355

SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION
COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 11/20/14

RESPONSIBLE PARTY: Michelle D. Herrman

Request 12. Refer to the Herrman Testimony, page 7, lines 8 through 13.

- a. Is South Kentucky aware of a quarterly short-term interest rate program offered by the Federal Financing Bank that allows the borrower on a quarterly basis to continue with the short-term rate in effect at that time, or convert to a fixed longer-term rate at the borrower's discretion?
- b. If so, explain why South Kentucky committed to a loan for this term and interest rate instead of taking advantage of much lower rates offered in the short-term program.

Response 12(a). Yes, South Kentucky has begun incorporating these types of loans into its overall portfolio.

Response 12(b). South Kentucky monitored the interest rates on the 30-year borrowing fixed rates for several months, as well as reviewed the recent historical 30-year rates and the 90-day treasury rates, and upon analysis of those trends, determined that rates were advantageous to commit to a long term fixed rate loan at that time. Due to the size of the loan amount and the fact that the loan would be for the purposes of funding a building, South Kentucky felt that the fixed 30-year rate would be the most conservative funding option for the long term and felt that

the short- term interest program would provide too much risk considering the dollar amount it sought to borrow at that time. It is important to note that South Kentucky intends to borrow at a later date the remaining funds necessary for the 2014 Proposed Headquarters and will strongly consider the short-term program for those funds.

PSC CASE NO. 2014-00355

SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION
COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 11/20/14

RESPONSIBLE PARTY: Michelle D. Herrman

Request 13. Refer to the Herrman Testimony, page 10, Table 2. Provide the calculations of the Interest Expense and Depreciation Expense shown in Table 2.

Response 13.

Interest Expense Calculation – \$396,466

For estimation purposes, the interest expense was calculated based upon an interest rate of 2.96% on a principal amount of \$ [REDACTED] for a loan period of 30 years. Please refer to the amortization table attached hereto as Exhibit 13 [PSC Request No. 13, Pages 2-4 of 4].

Depreciation Expense Calculation – \$244,400

The estimated project cost of \$ [REDACTED] [REDACTED] was used for the base calculation. A straight line calculation based upon a useful life of 50 years, or 2%, was utilized. This calculation is below:

$$\text{\$ [REDACTED]} - \text{\$ [REDACTED]} = \$12,220,000 \times 2\% = \$244,400$$

Mortgage Loan Payments - Amortization Table

Enter Values	
Loan Amount	\$ [REDACTED]
Annual Interest Rate	2.96 %
Loan Period in Years	30
Number of Payments Per Year	4
Start Date of Loan	10/1/2014
Optional Extra Payments	\$ -

Loan Summary	
Scheduled Payment	\$ [REDACTED]
Scheduled Number of Payments	120
Actual Number of Payments	120
Total Early Payments	\$ -
Total Interest	\$ [REDACTED]

Lender Name: RUS

Pmt No.	Payment Date	Beginning Balance	Scheduled Payment	Extra Payment	Total Payment	Principal	Interest	Ending Balance	Cumulative Interest
1	1/1/2015								
2	4/1/2015								
3	7/1/2015								
4	10/1/2015								
5	1/1/2016								
6	4/1/2016								
7	7/1/2016								
8	10/1/2016								
9	1/1/2017								
10	4/1/2017								
11	7/1/2017								
12	10/1/2017								
13	1/1/2018								
14	4/1/2018								
15	7/1/2018								
16	10/1/2018								
17	1/1/2019								
18	4/1/2019								
19	7/1/2019								
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27	7/1/2021								
28	10/1/2021								
29	1/1/2022								
30	4/1/2022								
31	7/1/2022								
32	10/1/2022								
33	1/1/2023								
34	4/1/2023								
35	7/1/2023								
36	10/1/2023								

Pmt No.	Payment Date	Beginning Balance	Scheduled Payment	Extra Payment	Total Payment	Principal	Interest	Ending Balance	Cumulative Interest
37	1/1/2024								
38	4/1/2024								
39	7/1/2024								
40	10/1/2024								
41	1/1/2025								
42	4/1/2025								
43	7/1/2025								
44	10/1/2025								
45	1/1/2026								
46	4/1/2026								
47	7/1/2026								
48	10/1/2026								
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81	1/1/2035								
82	4/1/2035								
83	7/1/2035								
84	10/1/2035								
85	1/1/2036								
86	4/1/2036								
87	7/1/2036								

Pmt No.	Payment Date	Beginning Balance	Scheduled Payment	Extra Payment	Total Payment	Principal	Interest	Ending Balance	Cumulative Interest
88	10/1/2036								
89	1/1/2037								
90	4/1/2037								
91	7/1/2037								
92	10/1/2037								
93	1/1/2038								
94	4/1/2038								
95	7/1/2038								
96	10/1/2038								
97	1/1/2039								
98	4/1/2039								
99	7/1/2039								
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101	1/1/2040								
102	4/1/2040								
103	7/1/2040								
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106	4/1/2041								
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108	10/1/2041								
109	1/1/2042								
110	4/1/2042								
111	7/1/2042								
112	10/1/2042								
113	1/1/2043								
114	4/1/2043								
115	7/1/2043								
116	10/1/2043								
117	1/1/2044								
118	4/1/2044								
119	7/1/2044								
120	10/1/2044								

PSC CASE NO. 2014-00355

**SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION
COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 11/20/14**

RESPONSIBLE PARTIES: Michelle D. Herrman, Jim Adkins

Request 14. Refer to the Herrman Testimony, Exhibit MDH-1. Provide the detailed operating statement information that results in the net margins shown on the exhibit.

Response 14. Please refer to the attached Exhibit 14 [PSC Request No. 14, Pages 2-3 of 3]. Page 2 of 3 contains calculations for the Base Case, which assumes no Proposed Headquarters facility. Page 3 of 3 contains calculations which assume construction of the Proposed Headquarters facility.

**SOUTH KENTUCKY RECC
SOMERSET, KY
TEN YEAR FINANCIAL FORECAST**

Base- No Proposed New Headquarters Facility

Statement of Operations

<u>Revenue</u>	<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>
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue from Current Rates	138,736,467	134,012,812	135,161,027	136,766,655	139,814,701	141,990,372	144,320,056	147,011,151	150,733,247	153,604,478
Increases for Distribution Costs	0	0	0	0	0	0	0	0	0	0
Increases for Purchased Power	(1,268,557)	1,069,919	4,155,638	7,634,646	9,781,003	12,158,733	16,087,165	19,703,242	22,656,725	25,362,813
Total Revenue	137,467,909	135,082,731	139,316,664	144,401,301	149,595,704	154,149,105	160,407,221	166,714,393	173,389,971	178,967,290
<u>Expenses</u>										
Cost of Purchased Power	99,412,197	98,453,236	102,462,210	107,128,599	111,759,168	115,728,610	121,324,793	126,864,676	132,756,836	137,517,038
Gross Margin	38,055,713	36,629,495	36,854,455	37,272,702	37,836,537	38,420,495	39,082,428	39,849,716	40,633,136	41,450,253
Distribution O&M	12,167,651	12,167,416	12,078,232	12,336,628	12,543,924	12,749,578	12,953,615	13,155,908	13,356,327	13,554,735
Consumer Accounts Expenses	4,636,056	4,631,140	4,684,996	4,732,936	4,784,072	4,839,084	4,959,580	4,938,840	4,984,876	5,036,692
Administrative & General	3,943,220	3,902,756	3,986,989	4,072,285	4,140,713	4,208,599	4,275,951	432,727	4,408,885	4,474,379
Depreciation	7,535,786	7,675,938	7,739,450	7,905,024	8,037,854	8,169,632	8,300,375	8,429,999	8,558,423	8,685,559
Tax Expense	143,359	146,061	149,214	152,406	154,967	157,508	160,028	162,527	165,003	167,455
Total Distribution Operating Exp	28,426,072	28,623,311	28,638,881	29,199,279	29,661,530	30,124,401	30,649,549	27,120,002	31,473,514	31,918,820
Operating Margins before Interest	9,629,640	8,106,184	8,215,574	8,073,423	8,175,007	8,296,094	8,432,880	8,819,714	9,159,621	9,531,433
Interest Expense	5,826,747	5,900,657	5,868,032	5,844,282	5,861,018	5,867,392	5,873,987	5,908,700	5,939,722	5,960,499
Operating Margins after Interest	3,802,893	2,205,527	2,347,542	2,229,142	2,313,989	2,428,702	2,558,893	2,911,014	3,219,899	3,570,935
Non-operating Margins	824,752	913,899	922,527	950,485	969,854	992,109	1,013,503	1,040,758	1,068,802	1,097,798
Other Capital Credits	117,678	110,063	101,013	92,639	83,800	76,172	69,752	64,061	58,545	52,534
G&T Capital Credits	0	0	0	0	0	0	0	0	0	0
Net Margins	4,745,323	3,229,489	3,371,082	3,272,266	3,367,643	3,496,983	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

**SOUTH KENTUCKY RECC
SOMERSET, KY
TEN YEAR FINANCIAL FORECAST**

With Proposed Headquarters Facility

Statement of Operations

	<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>
	\$\$	\$\$	\$\$	\$\$	\$\$	\$\$	\$\$	\$\$	\$\$	\$\$
Revenue										
Revenue from Current Rates	138,736,467	134,012,812	135,161,027	136,766,655	139,814,701	141,990,372	144,320,056	147,011,151	150,733,247	153,604,478
Increases for Distribution Costs	0	0	0	0	0	0	0	0	0	0
Increases for Purchased Power	(1,268,557)	1,069,919	4,155,638	7,634,646	9,781,003	12,158,733	16,087,165	19,703,242	22,656,725	25,362,813
Total Revenue	137,467,909	135,082,731	139,316,664	144,401,301	149,595,704	154,149,105	160,407,221	166,714,393	173,389,971	178,967,290
Expenses										
Cost of Purchased Power	99,412,197	98,453,236	102,462,210	107,128,599	111,759,168	115,728,610	121,324,793	126,864,676	132,756,836	137,517,038
Gross Margin	38,055,713	36,629,495	36,854,455	37,272,702	37,836,537	38,420,495	39,082,428	39,849,716	40,633,136	41,450,253
Distribution O&M	12,167,651	12,692,116	12,773,482	13,031,878	13,239,174	13,444,828	13,648,865	13,851,158	14,051,577	14,249,985
Consumer Accounts Expenses	4,636,056	4,631,140	4,684,996	4,732,936	4,784,072	4,839,084	4,959,580	4,938,840	4,984,876	5,036,692
Administrative & General	3,943,220	4,071,056	4,216,489	4,301,785	4,370,213	4,438,099	4,505,451	4,572,227	4,638,385	4,703,879
Depreciation	7,535,786	7,703,296	7,874,914	8,034,216	8,162,015	8,288,802	8,414,591	8,539,306	8,662,865	8,785,185
Tax Expense	143,359	152,360	157,803	160,995	163,556	166,097	168,617	171,117	173,592	176,044
Total Distribution Operating Exp	28,426,072	29,249,967	29,707,684	30,261,810	30,719,030	31,176,909	31,697,104	32,072,648	32,511,295	32,951,785
Operating Margins before Interest	9,629,640	7,379,528	7,146,771	7,010,892	7,117,507	7,243,586	7,385,324	7,777,069	8,121,840	8,498,468
Interest Expense	5,964,357	6,222,181	6,346,940	6,398,042	6,436,727	6,438,695	6,440,501	6,470,279	6,496,215	6,511,750
Operating Margins after Interest	3,665,283	1,157,346	799,831	612,850	680,780	804,891	944,823	1,306,790	1,625,625	1,986,718
Non-operating Margins	824,752	913,073	914,496	927,739	936,565	948,220	958,958	975,633	993,175	1,011,744
Other Capital Credits	117,678	110,063	101,013	92,639	83,800	76,172	69,752	64,061	58,545	52,534
G&T Capital Credits	0	0	0	0	0	0	0	0	0	0
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

PSC CASE NO. 2014-00355

**SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION
COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 11/20/14**

RESPONSIBLE PARTY: Glen Ross

Request 15. Refer to the Direct Testimony of Glen Ross (“Ross Testimony”), Exhibit GR-2. Provide a description of the line item for Architectural Service Fees, and to whom they will be paid.

Response 15. Architectural service fees will be paid to MSE of Kentucky, Inc. (Lexington, KY). MSE of Kentucky, Inc. will provide services for the schematic and preliminary phase, design development phase, construction documents phase, bidding phase, and construction phase. These services include programming, architecture, interior design, civil engineering, landscape design, structural design, mechanical design, and electrical design. Services will be provided through the design, bidding and construction contract administration phases for a competitively bid project. The project delivery method is to be by the traditional design-bid-build method.

PSC CASE NO. 2014-00355

**SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION
COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 11/20/14**

RESPONSIBLE PARTIES: Glen Ross

Request 16. Refer to the Ross testimony, page 12, line 11. How does South Kentucky envision the usage of the 12,265 feet of less expensive office space?

Response 16. The 12,265 s.f. of less expensive office space is renovated space built within the existing structure of the warehouse. It will be utilized by the SKRECC employees (construction crews, Right of Way crews, safety, and material warehousing) whose work requires them to be near the warehouse space and those who spend much time in the field.

PSC CASE NO. 2014-00355

**SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION
COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 11/20/14**

RESPONSIBLE PARTY: As to 17(a)-(c), Glen Ross; as to 17(d)-(e), Ruby Patterson

Request 17. Refer to the Ross Testimony, page 12, lines 16 through 23, and page13, lines 1 through 9.

- a. Explain whether MSE provided alternative designs for a headquarters facility in addition to the headquarters facility proposed in this matter.
- b. If so, provide documentation of any alternative designs, including plans and cost estimates.
- c. Provide the maximum number of employees that the proposed headquarters office space design will accommodate.
- d. Provide the number of employees who are currently located in the existing headquarters office space.
- e. Provide the number of employees currently located in the existing headquarters office space who will be located in the proposed headquarters office space.

Response 17(a). Initially the conceptual designs were for a full 2-story office building. Renderings were provided to show how that would look in relation to the existing building. Before floor plans were developed beyond the first floor, it was determined that there was not enough need for a full second floor. At that point, the design concept was changed to a partial

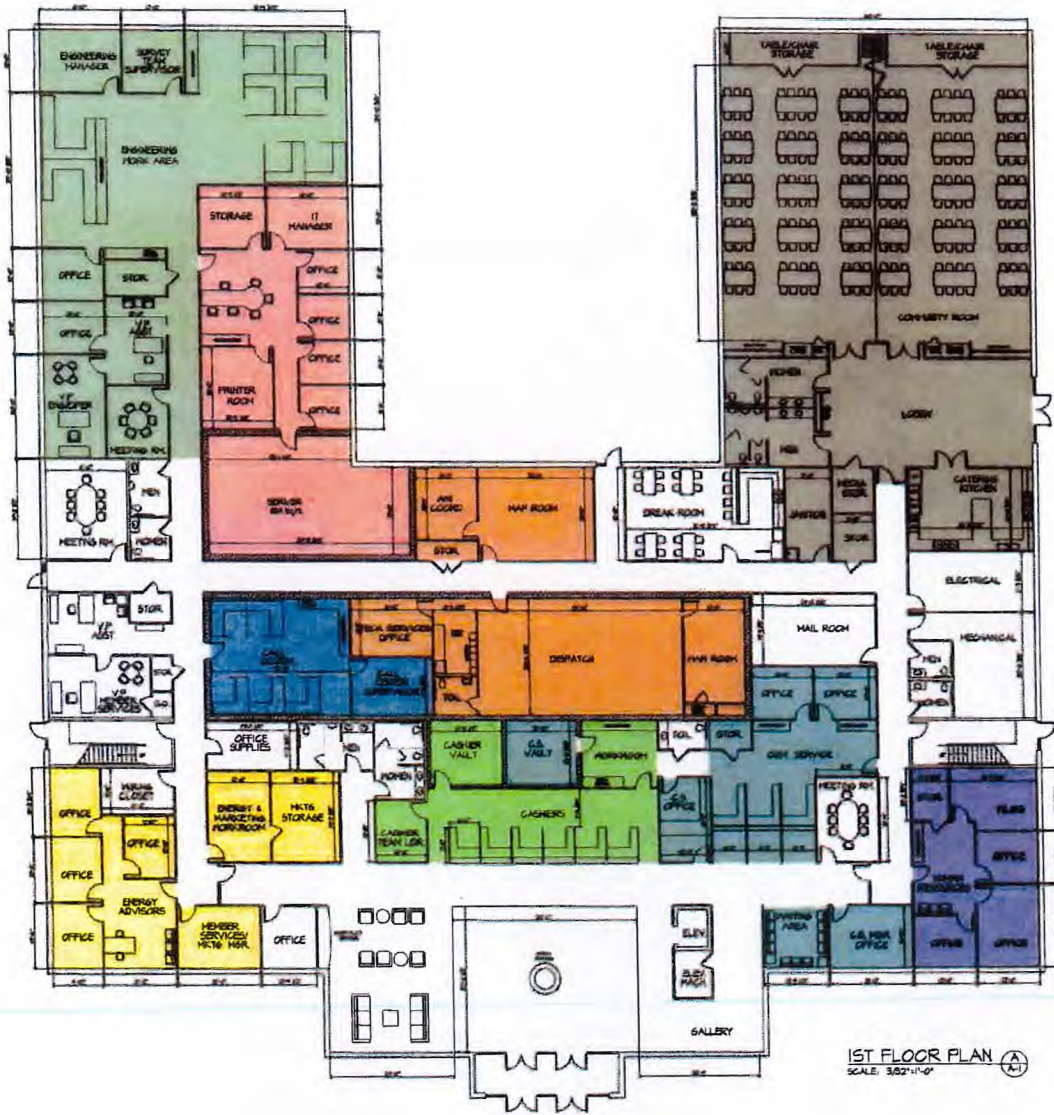
second floor at the main building, with warehouse/construction, right of way, and safety offices to be built inside the existing building. Additionally, the designs were altered to reduce the total square footage, and options were explored for constructing the Community Room space within the existing structure.

Response 17(b). Collective Exhibit 17 [PSC Request No. 17, Pages 4-11 of 11] contains a chronological sampling of some preliminary design alternatives which were considered. It should be noted that 27 revisions of the building plan were prepared before the final plan was reached that was submitted in the Application for Commission approval. The sample exhibits show an evolution of space designs for the new office portion of the project which represents the most expensive space to construct on a cost per square foot basis. The design started with a new, full 2-story office building size of approximately 46,060 s.f. which matched the original Northern Property building proposal previously approved by the Commission. In order to reduce the building construction cost budget, the new office building size has been reduced to the proposed 37,064 s.f. as shown in Exhibit 2 to the Application and represents a savings of approximately \$1,000,000.

Response 17(c). The designated office space in the main building plan will allow for growth to accommodate a maximum of 90 people. The warehouse/construction, right of way, and safety office space will allow for up to 60 people using standard space allowances and circulation.

Response 17(d). South Kentucky currently has 105 employees and based on national benchmarks is extremely low in a ratio of employees-to-members. South Kentucky intentionally has a lean workforce due to the recent downturn in the economy. South Kentucky expects this to improve.

Response 17(e). There are currently 105 employees located in the existing headquarters office who will be located in the proposed headquarters office space, plus allowance for reasonable growth.



- ENGINEERING/SURVEY
- INFORMATION MANAGEMENT
- ENERGY/MARKETING
- DISPATCH
- CALL CENTER
- CASHIERS
- CUSTOMER SERVICE
- HUMAN RESOURCES
- COMMUNITY ROOM

1ST FLOOR PLAN (A)
SCALE: 3/32"=1'-0"

SOUTH KENTUCKY RECC
SOMERSET, KENTUCKY

PROJECT NO.	452-11
REVISION	
DESIGNED BY	ELL
DRAWN BY	ELL
CHECKED BY	ELL
REVIEWED BY	ELL
DATE	JUNE 2008
SCALE	AS NOTED

Engineers
Architects
Planners

nse
OF KENTUCKY, INC.

1000 W. Main Street
Somerset, KY 40387
768.5500
768.5501

DRAWING NO
A-1
SHEET 02