

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF SOUTH KENTUCKY)	
RURAL ELECTRIC COOPERATIVE CORPORATION))	CASE NO.
FOR AN ADJUSTMENT OF RATES)	2011-00096

COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION
TO SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION

Pursuant to 807 KAR 5:001, South Kentucky Rural Electric Cooperative Corporation ("South Kentucky") is to file with the Commission the original and 10 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before October 7, 2011. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

South Kentucky shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which

South Kentucky fails or refuses to furnish all or part of the requested information, South Kentucky shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention should be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. Refer to the response to Item 1 of Commission Staff's Second Request for Information ("Staff's Second Request"). Explain what regulatory authority, if any, the state of Tennessee has over South Kentucky.

2. Refer to the response to Item 2 of Staff's Second Request. The response states that South Kentucky published notice in various newspapers in its service territory of the proposed rate increase and that its members were informed in May 2011 in South Kentucky's Annual Report in *Kentucky Living* magazine of its intent to apply for a rate increase. Further, South Kentucky states that a June 2011 article regarding the proposed rate increase appeared in South Kentucky's section of *Kentucky Living* magazine. Provide an affidavit of publication from the publisher of each publication in which the notice was published indicating the dates of publication with an attached copy of the notice that was published.

3. Refer to the response to Item 3 of Staff's Second Request and revised Exhibit D of the application. The response to Item 3 states that the STL tariff rates are based on a lumens rating range.

a. Provide the amount of lumens for the 1st, 3rd, 6th, 7th and 8th street lights listed in Schedule STL of revised Exhibit D.

b. The 4th street light listed in Schedule STL of revised Exhibit D, the 250W Flood 12,100 Lumen Mercury Vapor, is shown as having a present rate of \$13.12. Explain how it is known which rate would apply to this light when the amount of lumens listed for the light does not fall within the 7,000–10,000 range shown in South Kentucky's current tariff as having a rate of \$8.02 or the 15,000–28,000 lumen range shown as having a rate of \$13.12.

c. The 5th street light listed in Schedule STL of revised Exhibit D, the 400W 19,100 Lumen Mercury Vapor, is shown as having a present rate of \$8.02. Explain why this light would have a current rate of \$8.02 when the amount of lumens listed for the light would have it fall within the 15,000–28,000 lumen range which is shown in South Kentucky's current tariff as having a rate of \$13.12.

4. Refer to response to Items 5.a.(2) and 20.a. of Staff's Second Request. Item 5.a.(2) states the equity target is 35 percent in 15 years. Item 20.a. states that South Kentucky has a goal of attaining an equity level of 40 percent. Confirm that the response to Item 5.a.(2) contains the correct equity target.

5. Refer to the response to Item 5.e.(3) of Staff's Second Request. South Kentucky states that there are 471 residential customers under contract but shows 483 contracts expiring between 2012 and 2021. Explain the discrepancy.

6. Refer to the response to Item 5.e.(4) of Staff's Second Request regarding residential ETS customers. The response states that "[o]nce a contract expires, the ETS customer will go on the regular ETS rate which is currently proposed to be

\$0.06705.” The \$0.06705 referenced in the response does not appear in revised Exhibit D, South Kentucky’s revised customer notice. For residential customers without contracts, South Kentucky is proposing different residential ETS rates for years 1, 2, and 3. State whether South Kentucky intended to state that the first year after a customers’ contract expires, the customer will be charged the proposed Year 1 rate; the second year, the customer will be charged the proposed Year 2 rate; and in the third year the customer would be charged the Year 3 rate. If no, explain.

7. Refer to the 15th Revised Tariff Sheet, No. T-2, filed on July 6, 2011. For residential customers without contracts, South Kentucky is proposing different residential ETS rates for years 1, 2, and 3. Confirm that the Year 3 rate is proposed for Year 3 and beyond and not limited to Year 3. If this is not correct, explain how the ETS service will be priced after Year 3.

8. Refer to the response to Item 6 of Staff’s Second Request, revised Exhibit G, Revenue Summary. The revised exhibit shows an annual base rate revenue increase of \$8,847,915. Exhibit G of the application shows an annual increase of \$8,896,843. Explain the reason for the decrease in base rate revenue of \$48,928.

9. Refer to the response to Item 6 of Staff’s Second Request, revised Exhibit J, Billing Analysis.

a. For those rate classes receiving an increase, explain why the proposed rates in revised Exhibit J differ from the proposed rates listed in revised Exhibit D, Customer Notice. If the rates being proposed by South Kentucky are the rates that appear in revised Exhibit D, provide a second-revised Exhibit J using those rates.

b. Refer to the top of page 6 of 6, the Street Lighting class. The 2nd light listed, the 400W Flood 21,000 Lumen Mercury Vapor, is shown to have a current rate of \$8.02. Explain why this light would have a current rate of \$8.02 when the amount of lumens listed for the light would have it fall within the 15,000–28,000 lumen range which is shown in South Kentucky's current tariff as having a rate of \$13.12.

10. Refer to the response to Item 7 of Staff's Second Request, the revised Cost of Service Study ("COSS").

a. Refer to page 35 of 41, the Consumer and Accounting Services table. Explain why column 3 is not the product of columns 1 and 2 for rate classes OL and STL.

b. Refer to page 36 of 41. The COSS-based rate increase for Rate 4, Large Power, is shown as \$16,952. Explain why South Kentucky is recommending an increase for this class of \$753,389.

c. Refer to page 36 of 41. The COSS based rate increase for Rate 5, Optional Power Service, is shown as \$430,728. Explain why South Kentucky is recommending an increase for this class of \$248,000.

d. Refer to page 36 of 41. South Kentucky is recommending a rate increase of 30.98 percent for Rate 6, Residential ETS, and 27.16 percent for Rate 7, Small Commercial ETS. Explain how percentage increases of this magnitude satisfy the principal of gradualism.

e. Refer to page 37 of 41. South Kentucky is not recommending an increase for the Outdoor Lighting class. The COSS filed as Exhibit R of the application showed that the Outdoor Lighting class was providing revenues in excess of the costs

to serve it. However, the revised COSS shows that the Outdoor Lighting class should receive a \$52,518 increase. In light of the results of the revised COSS, does South Kentucky now believe that this rate class should receive an increase? If no, explain.

11. Refer to the response to Item 11 of Staff's Second Request. The response does not contain an answer to Item d. of the request. Provide the requested response.

12. Refer to the response to Items 12.b., 31, and 34.e. of Staff's Second Request. At Item 31, South Kentucky makes it clear that it seeks to recover depreciation on the full amount of its meter replacement program. At Item 12.b. and 34.e., South Kentucky identifies additional costs and savings that will result from the meter replacement program. In its response, South Kentucky quantified some of these identified costs and savings but not all.

a. Quantify the cost and savings that were not quantified in the response.

b. State why it is appropriate to recognize in pro forma operations only the depreciation on the meter replacement program and not the other costs and savings resulting from the replacement program as identified by South Kentucky.

c. Will eliminating the need for meters to be read on site result in the loss of any revenue, such as a charge for re-reading a meter at the customer's request? If yes, provide a schedule showing each charge to be eliminated and the test year annual revenue from the charge to be eliminated.

13. Refer to the response to Item 19 of Staff's Second Request. Explain why the amounts calculated in this response for the Residential and Small Commercial ETS

rates are not the rates proposed by South Kentucky for those rate classes in its application.

14. Refer to the response to Item 20 of Staff's Second Request. The responses to 20.c.(1) and (2) state that revisions were made after the adjustments were entered on page 3 of Exhibit S. Provide an updated Exhibit S with the correct adjustments. The updated Exhibit S should also include the revised revenue and purchased power amounts resulting from the change in the base fuel rate in Case No. 2010-00510¹.

15. Refer to the response to Item 21 of Staff's Second Request.

a. Refer to Item d. Provide the authority for the increase in rates charged for electrical inspections.

b. Refer to Item i. Explain why South Kentucky considers this to be an allowable expense for ratemaking purposes.

c. Refer to Item j. Explain the basis for the cost of health insurance and deferred compensation for the Board of Directors.

16. Refer to the response to Item 25.a. of Staff's Second Request. It states there is a correct page 7 attached to the response. Explain where in the response the correct page 7 is located?

17. Refer to the response to Item 29 of Staff's Second Request and page 2 of Exhibit 3. Identify and explain by account number, any factors other than physical

¹ Case No. 2010-00510, An Examination of the Application of the Fuel Adjustment Clause of South Kentucky Rural Electric Cooperative Corporation from November 1, 2008 through October 31, 2010 (Ky. PSC May 31, 2011).

depreciation, that cause South Kentucky's depreciation rates to be higher or lower than those of RUS.

18. Refer to the Application, Exhibit 3, page 2, and Exhibit 20, Section 2, page 4. The depreciation percentage for Account 362 Station Equipment is listed as 6.67 percent in Exhibit 3 and 3 percent in Exhibit 20. Explain this discrepancy and provide any corrections.

19. Refer to the Application, Exhibit 3, page 3. Provide an allocation of the proposed total depreciation adjustment in the manner listed at the bottom of page 3.

20. Refer to the Application, Exhibit 3, page 5, and Item 30 of Staff's Second Request. Shown on Exhibit 3 are the plant account balances as of September 30, 2010 upon which South Kentucky requests depreciation. Included in Item 30 are the subsidiary plant ledger accounts for the year ending September 30, 2010. The balances for each plant account shown in Exhibit 3 and Item 30 are compared in Table 1 below. Explain the differences in each account balance.

Table 1

	Exhibit 3	Item 30	Difference
Distribution Plant			
Land	\$ 52,264		\$ 52,264
Station Equipment	864,832	\$ 860,315	4,517
Poles, Towers and Fixtures	49,248,403	49,726,134	(477,731)
Overhead Conductors and Devices	51,967,266	52,497,478	(530,212)
Underground Conduit	425,821	432,661	(6,840)
Underground Conductor and Devices	5,746,724	5,871,625	(124,901)
Line Transformers	31,935,654	32,353,761	(418,107)
Services	20,469,544	20,674,247	(204,703)
Meters	19,636,215	5,417,498	14,218,717
Installations on Customer Premises		6,179,038	(6,179,038)
Security Lights	6,122,251	665,914	5,456,337
Street Lights	650,070		650,070
			-
Total Distribution Plant	187,119,044	174,678,671	12,440,373
General Plant			
Land	2,945,856	3,114,654	(168,798)
Structures and Improvements	9,146,231	9,174,572	(28,341)
Office Furniture and Equipment	556,849	562,362	(5,513)
Computer Equipment	2,253,402	2,311,083	(57,681)
Transportation Equipment	7,473,479	7,689,998	(216,519)
Stores	213,712	213,712	0
Tools, Shop and Garage	154,621	154,621	0
Laboratory	259,238	259,238	0
Power Operated Equipment	111,819	113,058	(1,239)
Communications	2,415,458	2,415,458	(0)
Miscellaneous	332,353	332,353	(0)
			-
Total General Plant	25,863,018	26,341,108	(478,090)
			-
Total Electric Plant	\$ 212,982,062	\$ 201,019,779	\$ 11,962,283

21. Refer to the Application, Exhibit 5, pages 2 and 3. For each lender listed on these pages, state separately the total annual principal payments that will be made by South Kentucky for each of the next 10 years.

22. For each of the previous ten calendar years, state the total amount of funds expended on capital improvement projects. For each amount listed, state,

separately, the amount that was funded with internally generated funds and the amount funded through the issuance of long-term indebtedness.

23. Provide South Kentucky's annual capital improvement budgets for all future years that are available. For each annual budget, state, separately, the amount anticipated to be funded through internally generated funds and the amount to be funded through the issuance of long-term indebtedness.

24. Refer to the response to Item 33 of Staff's Second Request.

a. At Item 33.b., page 1 of 53, the "Govt. Share" of the project is stated at \$9,538,234. At Items 33.c. and 33.e., South Kentucky states total grant funds for the meter replacement program to be \$8,805,307, as detailed in Table 2. Reconcile the differences in the \$9.5 million and the \$8.8 million.

DOE Grants Received On:	11/1/2010	\$	1,373,858
	5/12/2011		1,791,492
	9/12/2011		1,137,694
DOE Grants to be Received On:	12/2/2011		2,094,076
	4/16/2012		1,361,149
	9/4/2012		<u>1,047,038</u>
Total Grant		\$	<u>8,805,307</u>

b. At Item 33.a., South Kentucky references Case No. 2009-00489 wherein it estimated the total cost of the AMI meter replacement program at \$19,500,000. As shown above in Item a., South Kentucky will receive a grant in an amount ranging from \$8.8 million to \$9.5 million to pay for a portion of the replacement program.

(1) Identify the source of funding planned for the portion of the meter replacement program that will not be funded by the Department of Energy (“DOE”) and state the terms of this funding.

(2) Provide the amounts and dates upon which South Kentucky either has received or will receive the funding for the portion of the meter replacement program that will not be funded by the DOE grant funds.

25. Refer to the response to Item 33.h. of Staff’s Second Request. South Kentucky states that “the estimated useful life for the new AMI meters has no correlation to the amortization period for mechanical meters that have been retired.” Would South Kentucky agree that, if the undepreciated balance of the mechanical meters in the amount of \$3,723,716 were accounted for as required by the Uniform System of Accounts (“USof A”) and South Kentucky were requesting depreciation rates using the remaining life method, the \$3,723,716 would effectively be depreciated over the remaining life of the new AMI meters. If no, explain.

26. Refer to the response to Item 33.i. of Staff’s Second Request.

a. Provide the correspondence from Rural Utilities Service informing South Kentucky that it is proper to account for the grant proceeds as donated capital.

b. State whether South Kentucky is aware that the USoA, at Section 1767.16 Electric Plant Instruction (b)(4), requires contributions in aid of construction to be credited to the appropriate plant account.

c. State the reasons it is necessary for South Kentucky to depart from the requirements of the USoA regarding the contribution in aid of construction from the DOE.

d. The accounting treatment requested by South Kentucky for the DOE contribution results in recovery of depreciation expense on the contributed portion of the meter replacement program. Provide the reasons it is necessary for South Kentucky to recover depreciation expense on the portion of the meter replacement program that will be funded by the DOE contribution.

27. Refer to the response to Items 34.a. and b. of Staff's Second Request. At Item a., the number of mechanical meters to be replaced total 86,227. At Item b., the number of replacement AMI's total 69,300. Reconcile the difference in the number of meters to be replaced and the number of replacement meters.

28. Refer to the response to Item 34.e.(2) of Staff's Second Request. It states that "[A]ccount --598--Meter maintenance will increase tremendously as these meters are still unknown for maintenance but other cooperatives in Kentucky have expressed a significant increase in meter maintenance because these meters seem to be much more sensitive to items such as lighting than the older meters were."

a. Provide the basis of the information relative to other cooperatives that South Kentucky has relied upon in making this statement.

b. Provide a list and explanation of the other items that make the AMI meters more sensitive than the older ones.

c. Provide an estimate, based on the experience of other cooperatives, of the amount of increase expected in meter maintenance expense associated with the new AMI meters.

29. Refer to the response to Item 35.b.(2) of Staff's Second Request. State whether construction on the new headquarters facility was started but halted, or not

started. If construction was started and halted, provide the date that construction began.

30. Refer to the response to Item 38 of Staff's Second Request. Item c. requested, in part, a listing of specific projects resulting from the consulting efforts of Garland & Associates.

a. State whether or not any specific economic development projects have resulted from the consulting efforts of Garland & Associates.

b. Provide a copy of the economic development consulting contract with Garland and Associates and the terms for payment of the consulting services.

c. Explain what costs, other than the base contract consulting fees, South Kentucky pays Garland and Associates and the basis for such payments.

d. Explain what procedures South Kentucky has in place to ensure accountability for the economic consulting activities provided by Garland and Associates.

e. Provide the total amount paid to Garland and Associates during the test year.

f. Provide an estimate of the additional revenues that have been generated by South Kentucky as a result of the economic development consulting activities of Garland and Associates.

31. Refer to the response to Item 39 of Staff's Second Request. The response has a line item entitled "Coop labor and benefits." Explain whether the allowance of this expense would constitute double recovery of the coop labor and benefits cost.

32. Refer to the response to Item 40.b. of Staff's Second Request and the revised Exhibit 16, the year end customer growth adjustment.

a. Refer to Item 40.b. The response states that the revised customer adjustment is based on a 12-month average. Confirm that revised Exhibit 16 is based on a 13-month average.

b. In revised Exhibit 16, the kWh shown for Small Commercial class is 72,762,631. Explain why this differs from revised Exhibit J which shows the kWh for this class to be 75,104,607.

c. Refer to the LP3--Large Power column of revised Exhibit 16.

(1) Confirm that the "1" shown for September 2009 is correct.

(2) Explain why a customer growth adjustment was not calculated for this rate class given that a change of 1 is shown for this class.

33. Refer to the response to Item 42 of Staff's Second Request. Provide a breakdown of capital credits paid by year for the years prior to 2005 in the format shown in Exhibit 19 of the Application.

34. Refer to the response to Item 43.b.(1) of Staff's Second request and the Application, Exhibit 20, Section 8, page 2, Account 364. At Item 43.b.(1), South Kentucky states that "[r]etirements are recorded using the average plant balance for each record unit that is removed from service." In Exhibit 20, South Kentucky reported retirements of poles, towers, and fixtures during 2009 in the amount of \$619,317. Provide the work papers showing full detail of the calculation of this retirement amount using the average plant balance method.

35. Refer to the response to Item 44.a. of Staff's Second Request and the Application, Exhibit 20, Section 4, page 3. Provide all work papers detailing the selection of the retirement dispersion for poles, towers, and fixtures "that matched the closeness between actual annual amounts and those that had been simulated"

36. Refer to the response to Item 45 of Staff's Second Request and the Application, Exhibit 20, Section 4, page 3. Provide all work papers detailing the comparison of the actual plant retirements with the guideline curves for poles, towers, and fixtures.

37. Refer to the response to Item 46.a. of Staff's Second Request and the Application, Exhibit 20, Section 4, page 3.

a. In Item 46.a., South Kentucky states that a "computer model calculates an average service life and historical life curve." Provide a detailed description of the computer model used by South Kentucky that includes the name of its vendor and year it was created.

b. Provide all information that was input into the computer model to develop the average service life and historical life curve for poles, towers, and fixtures.

38. Refer to the response to Item 47.a. of Staff's Second Request. South Kentucky states:

The allocation of net salvage is based upon assumptions. Net salvage percentages were based on the same percentages as other RECC's, then adjusted to arrive at net salvage percentages that would most closely relate to the actual net salvage as recorded by South Kentucky in its accumulated depreciation for distribution plant.

Provide all work papers supporting South Kentucky's calculation and allocation of the net salvage.

39. Refer to the response to Item 50 of Staff's Second Request. Provide work papers showing how the assumptions listed in this response were incorporated into the depreciation study.

40. Refer to the response to Item 54 of Staff's Second Request. Items a. through d. of the original request did not have a response. Provide the requested responses.


Jeff Derouen
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED: SEP 23 2011

cc: Parties of Record

Allen Anderson
Manager
South Kentucky R.E.C.C.
925-929 N. Main Street
P. O. Box 910
Somerset, KY 42502-0910

Stephen Johnson
Vice President of Finance
South Kentucky R.E.C.C.
925-929 N. Main Street
P. O. Box 910
Somerset, KY 42502-0910

Honorable Darrell L Saunders, P.S.C.
Attorney at Law
700 Master Street
P.O. Box 1324
Corbin, KENTUCKY 40702