

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF RATES OF SOUTH)
KENTUCKY RURAL ELECTRIC) CASE NO. 2005-00450
COOPERATIVE CORPORATION)

SECOND DATA REQUEST OF COMMISSION STAFF TO
SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION

South Kentucky Rural Electric Cooperative Corporation ("South Kentucky"), pursuant to 807 KAR 5:001, is requested to file with the Commission the original and 5 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before May 22, 2006. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately.

1. Refer to the Application, Exhibit C, page 1 of 3. South Kentucky proposes an ETS energy charge of \$.03877, or 60 percent of its Schedule A Residential, Farm and Non-Farm service energy charge.

a. South Kentucky proposes that the ETS rate continue to be set at 60 percent of the Schedule A rate. What is South Kentucky's position on whether the ETS rate should be set based on the cost of serving the class?

b. If the ETS rate was to be solely cost based, provide the level of the ETS rate. Include all calculations performed to derive the rate.

2. Refer to the Application, Exhibit G, page 2 of 2. South Kentucky proposes increases of up to 168 percent in the customer charges of some rate classes. Explain whether South Kentucky believes that customer charge increases of this magnitude are consistent with the rate-making principle of gradualism.

3. Explain why South Kentucky has not proposed to adjust its miscellaneous charges or its cable television attachment charges in this case.

4. Refer to the Application, Exhibit H-3, pages 3 and 4 of 4. In response to Question No. 8, James R. Adkins states that the Cost-of-Service Study ("COSS") is consistent with the 1993 NARUC Electric Utility Cost Allocation Manual and is based on a methodology generally accepted within the industry. Provide a narrative discussion which describes the methodology South Kentucky used in preparing its COSS. Include in the discussion, a description of the method used to split investment between demand and consumer components.

5. Refer to the Application, Exhibit K, page 6 of 7.

a. Explain the factors that contributed to the general decline in Margins, excluding generating and transmission capital credits ("G&TCC"), for the years beginning with 2001 through the test year.

b. Explain the factors that contributed to the increase in Margins, excluding G&TCCs, between 2003 and 2004.

6. Refer to the Application, Exhibit N, pages 10 and 12 of 15.

a. Describe the purpose of the Rural Economic Development Loan program.

b. Explain how this program functions and South Kentucky's involvement in the program. Include with the explanation a discussion of why South Kentucky decided to become involved in the program during the test year.

c. On page 12 of 15 is a statement that a portion of the assets of one of South Kentucky's customers is secured as collateral for the Rural Economic Development Loan.

(1) Provide all the terms, conditions, and other requirements of this loan. Include a copy of the loan agreement and any related loan documentation.

(2) Identify the customer providing the collateral for the loan and describe the customer's rights and obligations under the loan.

d. Describe the status of the Rural Economic Development Loan program at South Kentucky as of test-year end and as of April 30, 2006.

7. Refer to the Application, Exhibit N, page 11 of 15. Item 4 states that in 2001 South Kentucky discontinued the purchase of installment sales contracts. However, the "Member Financing" section of South Kentucky's Web site appears to indicate this program is still active.

a. Explain the apparent disagreement between the auditor's report and the Web site.

b. Explain the operation of the financing partnership shown in the Member Financing section of South Kentucky's Web site. Include all terms, conditions, and other details of the program.

8. Refer to the Application, Exhibit N, page 12 of 15. Provide the status of a \$26,628,000 pending loan with the Rural Utilities Service ("RUS") as of April 30, 2006.

9. Refer to the Application, Exhibit N, page 14 of 15. Why are post-retirement benefits not funded?

10. Refer to the Application, Exhibit N, page 15 of 15.

a. The auditor's report discloses that during the test year South Kentucky purchased \$76,482 in products from businesses owned by members of its Board of Directors. Provide a schedule detailing all the transactions that make up the \$76,482 expenditure. For each transaction show the date of the transaction, invoice or other reference number, check number, the vendor name, the name of the board member associated with the transaction, the amount of the transaction, and a description of the transaction.

b. Explain in detail why South Kentucky decided to make these purchases from businesses owned by members of its Board of Directors.

c. During the test year, did South Kentucky purchase goods or services from businesses owned by (in total or in partnership) or operated by members of its Board of Directors or their immediate families, beyond the transactions disclosed in the auditor's report? If yes, provide the same information for these purchases as requested in part (a) above. For purposes of this question, immediate family means the parents, siblings, or children of a member of the Board of Directors.

d. State whether comparable goods or services were available from other vendors at similar prices.

e. For each transaction listed in the response to parts (a) and (c) above, provide documentation showing that South Kentucky paid no more for these goods and services than it would have been charged by another vendor.

f. During the test year, did South Kentucky incur any property taxes, insurance expenses, maintenance expenses, real estates fees, or other expenses associated with assets that had been acquired by South Kentucky from businesses owned by (in total or in partnership) or operated by members of its Board of Directors or their immediate families? For purposes of this question, immediate family means the same individuals as stated in part (c) above, and assets mean land, buildings, furniture, fixtures, office equipment, vehicles, or other construction equipment. If yes, provide the following regarding the asset that generated the associated expenses:

(1) For each asset acquired from a business owned or operated by a member of the South Kentucky Board of Directors, identify or describe the asset, indicate when the asset was acquired, indicate how the asset was acquired (direct purchase, competitive bids, etc.), the cost of the asset, and which director was associated with the transaction.

(2) Explain in detail why South Kentucky decided to purchase these assets from businesses owned or operated by a member of its Board of Directors.

(3) Did the director associated with the business selling the asset to South Kentucky participate in the purchase decision? If yes, identify the

director and the transaction. If no, describe the steps taken to “wall off” the director from the purchase decision.

11. Refer to the Application, Exhibit P, pages 5 and 6 of 17.

a. Explain if South Kentucky has experienced any change in the level of right-of-way (“ROW”) expenses or activity since the test-year end.

b. Describe how South Kentucky’s ROW was cleared during the test year and its current approach. If cleared by both South Kentucky employee’s and contractor’s, provide the percentage cleared by each for the test year and currently.

12. Refer to the Application, Exhibit P, pages 13 and 14 of 17.

a. From page 13, provide an explanation of the People Fund and the South Kentucky Rural Electric Trust. Also provide the test-year expense for each fund.

b. From page 14, provide the test-year expense for energy audits and other Demand Side Management (“DSM”) programs. Include the number of participants for all DSM programs for the test year.

13. Refer to the Application, Exhibit S, page 1 of 4. Explain the test-year adjustment to “Net Changes in Assets” and include any workpapers supporting that adjustment.

14. Refer to the Application, Exhibit S, page 3 of 4.

a. Explain why South Kentucky did not propose an adjustment to normalize its PSC Assessment.

b. Would South Kentucky agree that such an adjustment should be included and that the adjustment should be based on the most current assessment rate? Explain the response.

c. Explain why South Kentucky did not propose an adjustment to remove any revenues or expenses associated with its non-utility property.

15. Refer to the Application, Exhibit U.

a. Explain in detail why South Kentucky has not developed and implemented a formal equity management plan.

b. Was South Kentucky aware that the Commission for many years has been encouraging the distribution cooperatives to develop and implement formal equity management plans? Explain the response.

c. South Kentucky has proposed to eliminate the requirement from the settlement agreement in its last general rate case that it refund to its members the capital credits earned in excess of a 2.00X Times Interest Earned Ratio. Explain why the Commission should grant South Kentucky's request when it has not developed and implemented a formal equity management plan.

16. Refer to the Application, Exhibit W. For each of the accounts listed below, explain the reason(s) for the change in the August balances for the test year and the prior year.

a. Account No. 367, Underground Conduit & Devices, page 1 of 16.

b. Account No. 369, Services, page 1 of 16.

c. Account No. 107.14, CWIP – Radio System, page 2 of 16.

d. Account No. 107.80, CWIP - Buildings, page 2 of 16.

e. Account No. 108.71, Reserve – Transportation, page 2 of 16.

f. Account No. 136.22, Casey Co. Bank, page 6 of 16.

g. Account No. 136.24, Citizens - Albany, page 6 of 16.

- h. Account No. 136.26, Monticello Banking, page 6 of 16.
- i. Account No. 136.27, Bank of McCreary Co., page 6 of 16.
- j. Account No. 142.10, Accounts Receivable, page 7 of 16.
- k. Account No. 143.00, Other Receivables, page 7 of 16.
- l. Account No. 154.10, Materials and Supplies, page 9 of 16.
- m. Account No. 184.21, General Plant Purchased, page 10 of 16.
- n. Account No. 201.20, Patronage Capital – Assignable, page 11 of 16.
- o. Account No. 232.00, Purchased Power, page 12 of 16.

17. Refer to the Application, Exhibit X. For each of the accounts listed below, explain the reason(s) for the change in the Total balances for the test year and the prior year.

- a. Account No. 440.10, Residential, page 1 of 9.
- b. Account No. 442.10, Small Commercial, page 1 of 9.
- c. Account No. 442.20, Large Commercial, page 1 of 9.
- d. Account No. 555.00, Purchase Power, page 1 of 9.
- e. Account No. 593.00, Maintenance of Overhead, page 3 of 9.
- f. Account No. 593.50, Right-of-Way Maintenance, page 3 of 9.
- g. Account No. 908.00, Consumer Assistance, page 4 of 9.

18. Refer to the Application, Exhibit 1, pages 3 through 15 of 19.1.

a. On page 3, provide an explanation for increasing the Supervisor On-Call wages to \$2,500.00.

b. On page 5, explain why employee number 258 was the only hourly employee that received the Supervisor On-Call wages.

c. On page 7, provide the calculation for the normalization of the wages for employee numbers 589, 279, and 282. In addition, explain why it appears the normalization calculation was different compared to the other Summer and Part-Time employees.

d. On pages 8 and 9, explain why the test-year overtime hours shown on these pages do not agree. Indicate the correct level of test-year overtime hours.

e. On pages 10 through 13, provide an explanation for each July 1, 2005 wage and salary increase that is greater than the 3.00 percent stated on page 1 of 19.1.

f. On page 15, explain in detail the reason(s) for the amount of increase in the salaries for the Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer over the three-year period shown on this page.

19. Refer to the Application, Exhibit 2.

a. Explain why the FICA adjustment was based on year 2005 wage limit of \$90,000.00 instead of using the FICA adjustment for 2006 of \$94,200.00.

b. Recalculate the FICA adjustment to reflect the 2006 wage limit.

c. Explain the reason(s) why the State Unemployment Tax rate increased for years after 2001.

20. Refer to the Application, Exhibit 3.

a. On page 1 of 6, South Kentucky states that it has never had a depreciation study performed. In preparing for this case, did South Kentucky consider performing a depreciation study? Explain the response.

b. Refer to page 2 of 6. Explain why Land is included in the depreciation expense normalization for distribution plant.

c. Refer to page 3 of 6. Explain the differences in the test-year depreciation expense shown on page 3 with the total depreciation expense balance shown on Exhibit X, page 6 of 9.

d. Refer to pages 3 and 4 of 6. The schedule on page 3 shows that the reserve ratio for the five most recent calendar years are lower than the corresponding reserve ratios for 10 years ago. The reserve ratios are approximately 15 percent lower for the five most recent calendar years compared to the corresponding periods 10 years ago. The graph on page 4 shows that South Kentucky's ratio of current distribution plant in service to the distribution plant in service 10 years ago is just below the "Minimum Curve."

(1) Indicate when RUS Bulletin 183-1 was issued and when was the last update to the bulletin.

(2) Based upon the information provided on pages 3 and 4 of 6, does South Kentucky believe its depreciation rates are reasonable? Explain the response.

(3) Given the age of RUS Bulletin 183-1 and the information provided on pages 3 and 4 of 6, would South Kentucky agree that a depreciation study based on its own asset history should be considered? Explain the response.

e. Refer page 5 of 6. Explain the test-year amounts listed as “Additions” and “Retirements” for each account.

- (1) Account No. 389, Land.
- (2) Account No. 390, Structures and Improvements.
- (3) Account No. 391.01, Computer Equipment.
- (4) Account No. 391.11, Computer AVL Equipment.
- (5) Account No. 391.2, Transportation Equipment.

21. Refer to the Application, Exhibit 9, pages 6 through 11.

a. Refer to page 6. Explain the purpose of the expenses shown on lines 12 through 19 and why these expenses should be included for rate-making purposes.

b. Refer to pages 8 and 9. Explain why the expenses shown on lines 111, 127, 137, and 152 should be included for rate-making purposes.

c. Was South Kentucky aware that in previous electric distribution cooperative rate cases the Commission has not included the types of attorney expenses identified in parts (a) and (b) above for rate-making purposes?

d. Refer to pages 8 and 9. Provide a detailed explanation of the services provided by Darrell Saunders, PSC that have been described as “Economic Development Loan.” Indicate whether this type of expense represents an on-going activity for South Kentucky.

e. Refer to pages 10 and 11. Provide a detailed explanation of the services provided by Garland and Associates, Inc. in conjunction with economic development. This explanation should specifically discuss contract services, monthly

expenses, and grant writing services. For each expense not classified as contract services, monthly expenses, or grant writing services, explain the purpose of the expense and why it should be included for rate-making purposes.

22. Concerning the expenses incurred in conjunction with economic development, are these expenses paid for by South Kentucky or reimbursed from the RUS Economic Development Loan funds? Explain the response.

23. Refer to the Application, Exhibit 10.

a. Refer to page 1 of 13. Indicate who are the alternative delegates to the National Rural Electric Cooperative Association (“NRECA”) and the Kentucky Association of Electric Cooperatives (“KAEC”).

b. Pages 2 and 3 of 13 have a copy of Board Policy D that addresses directors’ fees and expenses. Explain the rationale for having a fixed monthly fee for attending meetings rather than a fee per each meeting attended.

c. Assume the following hypothetical situation. One director attends the monthly board meeting and three non-board meetings on the cooperative’s behalf and another director attends just the monthly board meeting. Under Board Policy D, both directors are paid the same fixed fee for attending meetings. Explain why this is a reasonable compensation practice.

d. Explain how South Kentucky determined that the fixed monthly fee for the directors should be \$1,000. Include any studies or analysis performed that supported this level of compensation.

e. On page 2 of 13, Section II, part B(1) states that all directors will be paid the same fixed monthly fee. However, the analysis of the directors’ fees and

expenses on page 5 of 13 shows the President of the Board received \$3,000 more in meeting fees. Explain the reason(s) for this apparent conflict with Board Policy D. Also, explain the purpose of the additional monthly fee and why it should be included for rate-making purposes.

f. Provide a schedule showing for each month of the test year the number of regular board meetings, special board meetings, and non-board meetings attended by the South Kentucky directors. Each director's attendance should be shown separately.

g. Refer to pages 6 through 12 of 13.

(1) Explain why South Kentucky provided Internet and telephone service to several, but not all, of its directors.

(2) Explain why South Kentucky believes this expense should be included for rate-making purposes.

(3) Explain why several of the directors' e-mail addresses shown on South Kentucky's Web site were not South Kentucky accounts.

(4) A review of these pages shows that more than two directors attended the NRECA and KAEC annual meetings. Explain why the expenses associated with these annual meetings for attendees other than the delegate and alternate delegate should be included for rate-making purposes.

(5) Was South Kentucky aware that in previous electric distribution cooperative rate cases the Commission has only included the expenses for the delegate and alternate delegate to attend the NRECA and KAEC annual meetings?

24. Refer to the Application, Exhibit 11, pages 2 through 5 of 11. Explain the expenditure identified as “Logo for employee shirts.”

25. Refer to the Application, Exhibit 11, pages 3 through 6 of 11. For each of the transactions listed below, provide the text of the radio spot or a copy of the printed advertisement:

- a. Check No. 112627, page 3 of 11.
- b. Check No. 112887, page 3 of 11.
- c. Check No. 113539, page 4 of 11.
- d. Check No. 115083, page 5 of 11.
- e. Check No. 115617, page 6 of 11.

26. Refer to the Application, Exhibit 11, page 6 of 11. Explain why this schedule shows transactions dated in September 2005 when the test-year end was August 31, 2005.

27. Refer to the Application, Exhibit 11, pages 7 and 8 of 11. Explain the purpose of the following transactions and why the expense should be included for rate-making purposes:

- a. Check No. 110430, page 7 of 11.
- b. Check No. 112546, page 7 of 11.
- c. Check No. 113947, page 8 of 11.

28. Refer to the Application, Exhibit 13, page 3 of 3. At the bottom of this page is the following statement, “The fuel purchased and environmental surcharge from East Kentucky Power Cooperative is passed on to the consumers using the Fuel Adjustment Procedures established by this Commission.” Given the fact that the

Commission established a specific environmental surcharge pass through mechanism for the cooperatives, explain why this statement states the fuel adjustment clause procedures are followed.

29. Refer to the Application, Exhibit 15.

a. Explain why South Kentucky did not calculate a 13-month end-of-test-year customer adjustment for all rate classes. If South Kentucky believes that such an adjustment is inappropriate for a given rate class, explain why the adjustment would be inappropriate.

b. Provide a revised 13-month end-of-test-year customer adjustment that includes all of South Kentucky's rate classes.

c. Provide a revised Schedule J – Revenue Analysis and Billing Analysis, using the billing determinates calculated in the previous response. Provide all spreadsheets in an electronic format such as CD-ROM, or diskette.

30. Refer to the response to the Commission Staff's First Data Request dated November 29, 2005 ("Staff's First Request"), Item 13.

a. For each property listed in the response, provide the following revenue and expense information for the test year:

- (1) Rental income.
- (2) Depreciation expense.
- (3) Insurance expense.
- (4) Utility expenses.
- (5) Maintenance and/or upkeep expenses.

b. Explain in detail how South Kentucky accounts for revenues and expenses associated with its non-utility property. Identify the account numbers used to record the revenues and expenses. Include a description of any cost allocation methodologies utilized.

c. During the test year, did South Kentucky increase or decrease its investment in non-utility property? If yes, provide a complete description of the transaction and include the date of the transaction, the cost of or proceeds from the transaction, and the name of the seller or purchaser.

d. The response indicates that South Kentucky has invested \$273,441 in non-utility property since 1990. Explain why South Kentucky has made these investments in non-utility property.

31. Refer to the response to the Staff's First Request, Item 48.

a. Provide a detailed description of the goods and services offered by or through South Kentucky Services Corporation ("Services Corp.").

b. The response to Item 48(b) states that there have been no investments in stock or debt to Services Corp. Explain how Services Corp. raised operating funds if South Kentucky has not purchased stock or made loans.

c. Did South Kentucky provide or arrange for any loan guarantees for Services Corp.? If yes, provide a detailed explanation of the terms, conditions, and obligations of the loan guarantee.

d. Describe all facilities, personnel, or other resources shared by Services Corp. and South Kentucky.

e. The response to Item 48(e) shows the amount of officer compensation charged to Services Corp. Explain the method or basis used to determine the allocation of these expenses.

f. Provide a schedule showing all costs and expenses that were allocated from South Kentucky to Services Corp. during the test year. This schedule should show the account number and title, the amount allocated to Service Corp., a description of the cost or expense allocated, and a description of the method or basis used to determine the allocation.

g. Describe the process utilized by South Kentucky to account for the allocation of costs and expenses to Services Corp. Include a discussion of how payments or reimbursements from Services Corp. are recorded in South Kentucky's accounts.

32. Is South Kentucky involved in any non-utility businesses or activities that are not part of the activities of Services Corp.? If yes, provide a detailed description of the non-utility business or activity. Include a discussion of how costs and expenses are allocated to the non-utility business or activity and how these transactions are recorded on South Kentucky's books. For purposes of this question, non-utility businesses and activities include, but are not limited to, the sale and/or installation of appliances, the sale and/or installation of heating and air conditioning systems, and the provision of billing or other services under contract.

33. Concerning South Kentucky's Web site:

a. Provide the test-year expense for the operation and maintenance of the Web site.

b. Were any of the expenses associated with the Web site allocated to the non-utility businesses or activities or to Services Corp.?

(1) If yes, describe the method or basis used for the allocation and provide the amounts allocated to non-utility business or activity and Services Corp.

(2) If no, explain in detail why an allocation of these expenses was not performed.

34. Has South Kentucky prepared and adopted a formal, written cost allocation manual ("CAM")?

a. If yes, provide copies of the CAM and indicate when the CAM was last updated.

b. If no, explain why South Kentucky has not prepared and adopted a CAM.



Beth O'Donnell
Executive Director
Public Service Commission
P. O. Box 615
Frankfort, KY 40602

DATED May 8, 2006
cc: All Parties