

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF SHELBY ENERGY COOPERATIVE,) CASE NO.
INC. FOR AN ADJUSTMENT OF RATES) 2009-00410

SECOND DATA REQUEST OF COMMISSION STAFF
TO SHELBY ENERGY COOPERATIVE, INC.

Shelby Energy Cooperative, Inc. ("Shelby Energy"), pursuant to 807 KAR 5:001, is to file with the Commission the original and seven copies of the following information, with a copy to all parties of record. The information requested herein is due on or before March 8, 2010. 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 the 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.

Shelby Energy 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 Shelby Energy fails or refuses to furnish all or part of the requested information, it shall

provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall 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 Exhibits B and C of the application, PSC No. 5, 8th Revised Sheet No. 15. Explain why the proposed increase in the Off-Peak Retail Marketing Rate (ETS) is not reflected on these pages. If Shelby Energy's intent is to raise the rate to \$.065190 per kWh, as shown in its newspaper notice, file a revised tariff sheet reflecting the proposed rate.

2. File an index to be included with Shelby Energy's proposed tariff which lists each rule, regulation, and rate, and the tariff sheet on which each is located.

3. Provide a reconciliation of the amount of increase per class shown in Exhibit D with the amount per class shown in Exhibit G, p. 1 of 2.

4. Refer to Exhibit H of the application, the Direct Testimony of Debbie Martin, at question 12. Ms. Martin provides the proposed increase as \$2,262,336. Confirm that the increase being requested by Shelby Energy is \$2,268,197, as shown in Exhibit J.

5. Refer to Exhibit H of the application, the Direct Testimony of James R. Adkins.

a. Refer to page 7. Mr. Adkins states that, in the cost-of-service study ("COSS"), the minimum-size method was used for Accounts 364, Poles, and 365, Overhead Conductor; and that the zero-intercept method was used for Account 368, Transformers. Explain why Mr. Adkins chose two different methods to determine the demand and consumer-related components.

b. Refer to pages 11 and 12. Mr. Adkins states that Shelby Energy is proposing that the Off-Peak Retail Marketing Rate be set based on the results of the COSS rather than set at 60 percent of the residential energy rate.

(1) State the number of customers on this rate and whether or not it was marketed to those customers based on the rate being 60 percent of the residential energy rate.

(2) Other East Kentucky Power Cooperative, Inc. ("EKPC") cooperatives have indicated that EKPC has suspended the program. Explain whether Shelby Energy intends to continue the program if EKPC has suspended it.

(3) Does Shelby Energy believe that customers will be deterred from choosing this rate if it is approved at its proposed higher percentage of the residential energy rate?

c. Refer to page 13. In the middle of answer 21, Mr. Adkins states, "The proposed rate design may contain the least amount of justification of [sic] because it does deviate from the COSS much more than the other two areas." Explain this statement.

6. Refer to Exhibit J of the application.

a. Refer to page 1 of 12. The following rates appear in Shelby Energy's tariff but are not included in the revenue analysis: Standby Power Rate – Rate 4; Large Industrial Rate – Rate B3; Large Industrial Rate – Rate C1; Large Industrial Rate – Rate C2; Large Industrial Rate – Rate C3; Optional TOD Demand – Rate 22; and Special Outdoor Lighting Service – Rate 33. Confirm that there are no customers taking service under any of these rates.

b. Shelby Energy has a tariff rider for Renewable Resource Energy – Rate 24. State the number of customers who have chosen this rider as of the end of each month of the test year, the amount of revenue received during the test year, and the account in which this revenue is recorded.

c. Refer to pages 2, 3, 4, and 7 of 12. Explain why normalized revenues¹ for the proposed Rates 11 and 12 do not equal the normalized revenues for current Rates 1 and 10.

d. Refer to page 11 of 12. Explain why this page shows a rate of \$.02825 per kWh when Shelby Energy's Renewable Resource Energy Rate – Rate 24 is \$.0275 per kWh.

7. Provide a copy of Exhibits J and R electronically on CD-ROM in Microsoft Excel format with all formulas intact and unprotected.

¹ Normalized for Case No. 2008-00536, An Examination of the Application of the Fuel Adjustment Clause of Shelby Energy Cooperative, Inc. from November 1, 2006 through October 31, 2008 (Ky. PSC Jul. 15, 2009).

8. Refer to Exhibit R of the application. Describe any differences in methodology used in the COSS submitted in this case relative to recent COSSes prepared by Mr. Adkins in rate cases of other EKPC distribution cooperatives.

9. Refer to Exhibit R, page 2 of 30.

a. Adjusted test-year total distribution operation expenses on this page total \$1,308,612. However, Exhibit S shows total distribution operation expenses to be \$1,336,483, a difference of \$27,871. Explain the discrepancy.

b. Adjusted test-year total consumer accounts expenses on this page total \$751,586. However, Exhibit S shows total consumer accounts expenses to be \$723,717, a difference of \$27,869. Explain the discrepancy.

10. Refer to Exhibit R, page 6 of 30. Explain why Account 585, Street Lights, is allocated 100 percent to the Meters function.

11. Refer to Exhibit R, page 8 of 30, footnote 6 at the bottom of the page.

a. The first number under the Total column, \$17,024,566, appears to be the total of Overhead Conductors and Devices rather than Poles, Towers and Fixtures as labeled. Confirm that this total is mislabeled.

b. The second number under the Total column, \$307,519, appears to be the total of Underground Conduit rather than Overhead Conductors as labeled. Confirm that this total is mislabeled.

c. Explain where in the COSS the allocations calculated in footnote 6 are used.

12. Refer to Exhibit R, page 9 of 30. State whether or not the numbers in the Amount column represent payroll dollars assigned to the accounts shown. If not, explain the origin of the numbers in that column.

13. Refer to Exhibit R, page 12 of 30. Explain why the accumulated depreciation amounts of \$9,731,959 and \$1,679,194 shown on this page (totaling \$11,411,153) do not equal total accumulated depreciation of \$11,336,003 reported in Exhibit S, page 2.

14. Refer to Exhibit R, page 17 of 30, table No. 2. Explain how the minimum size of .09924 was determined.

15. Refer to Exhibit R, pages 19 and 20 of 30.

a. Explain how Purchased Power Energy was allocated to the customer classes. The allocation percentages do not appear to match the allocation percentages calculated on page 21 of 30.

b. Explain how Purchased Power Demand was allocated to the customer classes. The allocation percentages do not appear to match the allocation percentages calculated on page 22 of 30.

16. Refer to Exhibit R, page 24 of 30, the Transformers table. Explain why the cost of the minimum transformer would be higher for Rate 10, Optional DSM Rate, than for Rate 1, General Service.

17. Refer to Exhibit R, page 25 of 30. For both the Services and Meters tables, explain why the costs for the Large Power Rate Schedules B-1 and B-2 are zero.

18. Refer to Exhibit R, pages 26 and 27 of 30.

a. Refer to the Meter Reading table at the bottom of page 26. The amounts in the Expense Allocated column do not equal the total shown of \$326,264. Explain how the amounts in this column were calculated.

b. Refer to the Consumer Records table at the top of page 27. The amounts in the Expense Allocated column do not equal the total shown of \$296,112. Explain how the amounts in this column were calculated.

19. Refer to Exhibit R, page 28 of 30. Explain how "Other Revenue" was allocated to the rate classes.

20. Refer to Exhibit X of the application, page 1 of 7.

a. Provide a detailed breakdown of Accounts 454 and 456.

b. For Accounts 454 and 456, provide the July 31 balances of these accounts for the most recent five-year period.

21. Refer to Exhibit 13, page 3 of 3.

a. Under the "Cost of Money," Shelby Energy references its last general rate case as Case No. 8361. Did Shelby Energy intend to reference Case No. 8713?

b. State where in the Order in Shelby Energy's most recent general rate case the 6.83 percent is shown.

22. Refer to Exhibit 14, page 4 of 6. The first paragraph refers to marking a customer account as "NO CHECK." Explain the meaning of this term and the location of this policy in Shelby Energy's tariff.

23. Refer to Exhibit 18 of the application. Explain why the ETS rate is not included in this exhibit.

24. Refer to Shelby Energy's January 25, 2010 filing, which included revised tariff sheets.

a. Refer to Revised Exhibit B-3. In Revised Exhibit B-3, Shelby Energy changed a sentence under Section 21, Collection of Delinquent Accounts, to state that, if a customer is disconnected for nonpayment, in addition to being charged a reconnect fee of \$35, the customer will also be charged a \$30 collection fee. Explain why it is appropriate to charge a collection fee to customers who pay their unpaid bills and reconnect fees by mail or in person without necessitating a collection trip by utility personnel.

b. Refer to Revised Exhibit B-4(4). This Residential Service Rate 12 includes a special rule that pertains to motors having a rated capacity in excess of ten or five horsepower. Explain the necessity of this rule in a residential rate schedule.

25. Refer to Exhibit S, page 4 of the application, which shows the amount of the proposed increase based on attaining a TIER of 2.0X.

a. Describe the methodology employed by Shelby Energy in determining that 2.0X was the appropriate TIER on which to base its requested rate increase.

b. Is Shelby Energy aware of any studies performed by the Rural Utilities Service ("RUS") or the National Rural Utilities Cooperative Finance Corporation ("CFC") on the subject of the appropriate TIER level for an electric distributive cooperative? If yes, identify the studies and when they were performed.

c. Shelby Energy's request in this case for a 2.0X TIER would produce net margins of roughly \$1.7 million. For each of the five calendar years

immediately preceding the test year, provide the approximate net margins that would have been realized if Shelby Energy had achieved a TIER of 2.0X.

26. Refer to Exhibit X of the application, which provides a comparison of income statement account levels for the test period and the 12 months immediately preceding the test period.

a. Page 2 of 7 shows that Account 593.00, Maintenance of Overhead Lines, increased by \$291,689, from \$625,640 to \$917,329, from 2008 to the 2009 test period. Provide a detailed explanation for why the expense increased by this magnitude.

b. Page 2 of 7 also shows that Account 593.10, Right-of-Way Maintenance, increased by \$109,370, from \$522,870 to \$632,240, from 2008 to the 2009 test period. Provide a detailed explanation for why this expense increased by this magnitude.

c. Page 2 of 7 also shows that Account 594.00, Maintenance of Underground Lines, decreased by \$32,793, from \$78,731 to \$45,938, from 2008 to the 2009 test period. Provide a detailed explanation for why this expense account decreased by this magnitude.

d. Page 3 of 7 shows that Account 903.00, Consumer Records & Collections Expense, decreased by \$73,960, from \$331,613 to \$257,653, from 2008 to the 2009 test period. Provide a detailed explanation for why this expense decreased by this magnitude.

e. Page 3 of 7 also shows that Account 908.00, Customer Assistance Expense, increased by \$27,747, from \$57,836 to \$85,583, from 2008 to the 2009 test

period. Provide a detailed explanation for why this expense increased by this magnitude.

f. Page 3 of 7 also shows that Account 909.00, Informational/ Instructional Expense, increased by \$6,554, from \$14,585 to \$21,139, from 2008 to the 2009 test period. Provide a detailed explanation for why this expense increased by this magnitude.

g. Page 4 of 7 shows that Account 923.00, Outside Services Employed, increased by \$169,923, from \$45,396 to \$215,319, from 2008 to the 2009 test period. Provide a detailed explanation for why this expense increased by this magnitude.

h. Page 6 of 7 shows that Account 421.10, Gain on Disposition, increased by \$200,710, from (\$90,000) to \$110,710, from 2008 to the 2009 test period. Provide a detailed explanation for why this expense increased by this magnitude.

i. Page 5 of 7 shows that Account 427.20, CFC Interest, decreased by \$42,060, from \$259,175 to \$217,115, from 2008 to the 2009 test period. Provide a detailed explanation for why this expense decreased by this magnitude.

j. Page 6 of 7 shows that Account 418.10, Subsidiary Income, increased by \$48,323, from \$2,399 to \$50,722, from 2008 to the 2009 test period. Provide a detailed explanation for why this expense increased by this magnitude.

27. Refer to Exhibit 1 of the application.

a. Provide a copy of the union contract.

b. Refer to pages 3 and 4 of the exhibit, and the column labeled Storm and Christmas.

(1) Provide a detailed explanation for the amount of \$1,709 listed for most of Shelby Energy's employees.

(2) Why did some employees receive a different amount or none at all?

(3) How was the amount of \$1,709 determined?

c. Page 5 shows that employee number 1308 was hired during the test year. However, this employee number does not appear on the Employee Earnings and Hours schedule on pages 3 and 4.

(1) Explain this discrepancy.

(2) If employee 1308 has not been included in the schedules filed but should have been, provide corrected schedules for all schedules affected by this discrepancy.

(3) For what position was employee 1308 hired?

(4) Provide the date of hire for the new employees.

28. Refer to Exhibit 3 of the application.

a. Explain fully why Shelby Energy has never had a depreciation study performed.

b. On page 1, Shelby Energy states that its depreciation rates and procedures follow RUS Bulletin 183-1. On page 3, the rates indicated for Accounts 365, 366, 367, 369, 371, 373, and 392 are outside the rate ranges published in RUS Bulletin 183-1. Explain fully this discrepancy and why the rates being used by Shelby Energy are appropriate.

c. Has Shelby Energy sought formal approval from RUS for depreciation rates that are outside the RUS ranges? If so, provide documentation of RUS approval of those rates.

d. How long have Shelby Energy's depreciation rates been in effect?

29. Refer to Exhibit 4 of the application.

a. Provide a detailed description of the Public Service Company Assessment.

b. Provide a comparative schedule of property tax expense for the calendar year in the period 2005 through 2009.

c. Provide a detailed analysis of Other Taxes in the amount of \$35,224.

30. Refer to Exhibit 5 of the application.

a. Provide an update of the current interest rates for outstanding long-term debt as of the most recent date available and continue to update monthly until the date of the hearing in this proceeding.

b. On page 2 under RUS loans, Loan 1B333 in the amount of \$1,000,000 has an issue date of November 2005 and is listed as outstanding as of July 31, 2009. However, this loan is not listed as outstanding as of December 31, 2008 on page 3. Explain this discrepancy.

31. Refer to Exhibit 7 of the application. Provide the calculation of the proposed contribution cost resulting in the amount of \$455,356. Explain why the correct proposed contribution cost is not \$384,492.

32. Refer to Exhibit 9 of the application.

a. Page 3 shows five payments to Mathis, Riggs & Prather totaling \$3,269.19 for "Employee complaint BS." Fully explain the nature of these expenditures and why Shelby Energy considers this to be a normal recurring expense.

b. Pages 4 and 5 show five payments to HR Enterprise totaling \$11,866.00. Fully explain the nature of these expenditures and why Shelby Energy considers this to be a normal recurring expense.

c. Page 4 shows payments to Frost, Brown & Todd, PLLC totaling \$110,256.06 for union negotiations.

(1) Given that this expense is associated with establishing an initial union contract with hourly employees, would Shelby Energy expect a similar level of costs to be incurred when the current contract expires and negotiations for the next contract begin?

(2) Fully describe the process that resulted in the selection of Frost, Brown & Todd, PLLC to negotiate this initial contract.

d. Page 5 shows payments to Patterson & Dewar Engineering totaling \$41,564.60. Fully explain the nature of these expenditures and why Shelby Energy considers this to be a normal recurring expense.

33. Refer to Exhibit 10 of the application.

a. It appears that included in the per diem adjustment of \$600 are per diems also deducted for Ashley Chilton and Randy Stevens for attending the EKPC meeting as non-representatives. Is this correct?

b. Refer to page 4. Explain the two credits of \$100 each listed under the Per Diem column.

c. Refer to pages 3 through 10.

(1) Fully explain the nature of the other board meetings for which the board members were paid \$100.

(2) Fully explain why the compensation for regular board meetings paid to Roger Taylor and Randy Stevens is at a different rate than that paid to the other board members. Provide copies of any applicable policies that support the amounts paid.

34. Refer to Exhibit 12 of the application, which shows the estimate of Shelby Energy's expenses associated with this rate case. On a monthly basis beginning with August 2009, provide the amount of Shelby Energy's actual rate case expense, broken down in the same categories as the estimate.

35. Refer to Exhibit 21 of the application. Explain why Shelby Energy did not pay any capital credits in 2009.

36. Refer to Exhibit 11, Customer Assistance - Account 908.00, page 2.

a. Describe the nature of the expenditure of \$125.00 for annual membership fee paid to the Shelbyville Board of Realtors and explain how this expenditure benefits Shelby Energy customers.

b. Describe the nature of the expenditure of \$235.57 for photo supplies paid to Visa and explain how this expenditure benefits Shelby Energy customers.

37. Refer to Exhibit 11, Informational Expense - Account 909.00, pages 3 through 5.

a. Describe the nature of the expenditure of \$1,119.36 for "History of Ky cooperatives book" paid to Plum Lick Publishing and explain how this expenditure benefits Shelby Energy customers.

b. Describe the nature of the expenditure of \$72.00 for "Button up" paid to Helen Robak and explain how this expenditure benefits Shelby Energy customers.

c. Describe the nature of the expenditure of \$159.00 for "HR magazine subscription" paid to Ragan Communications and explain how this expenditure benefits Shelby Energy customers.

d. Describe the nature of the expenditure of \$774.00 for "Ice storm restoration" paid to The Sentinel News and explain how this expenditure benefits Shelby Energy customers.

e. Describe the nature of the expenditure of "KAEC \$424.00 Ice storm books" and explain how this expenditure benefits Shelby Energy customers.

f. Listed on pages 3 and 4 are six payments for safety ads to K-95 WKID totaling \$652.50. Provide copies of each ad listed.

g. Listed on pages 3 and 4 are two payments for safety and conservation ads to Trimble Banner Democrat totaling \$644.00. Provide copies of each ad listed.

h. Listed on pages 3 and 4 are four payments for safety and conservation ads to The Sentinel News totaling \$1,512.88. Provide copies of each ad listed.

i. Listed on pages 3 and 4 are five payments for safety and conservation ads to Forever Communications totaling \$750.00. Provide copies of each ad listed.

j. Listed on page 4 is a payment for a safety ad to the News Democrat for \$129.00. Provide a copy of the ad listed.

k. Verify that the amount to exclude for rate-making purposes of \$3,910.53 is correct.

38. Refer to Exhibit 11, Miscellaneous General Expense - Account 930.20, pages 6 through 12.

a. There are numerous payments listed as "Mileage for personal vehicle" totaling \$11,722.32.

(1) Fully explain the nature of these expenditures and why Shelby Energy considers this to be a normal recurring expense.

(2) Were all payments listed made to employees? If not, identify payments to non-employees.

(3) Provide the mileage rate used during the test year to reimburse mileage for personal vehicles.

(4) If Shelby Energy has an established policy governing the use of personal vehicles and reimbursement of mileage, provide a copy of the policy. If it has no such policy, describe how mileage reimbursements are determined.

b. There are numerous payments listed for various meal expenses (i.e., employee meetings, safety meetings with customers, training sessions, etc.) totaling \$4,293.68.

(1) Fully explain the nature of these expenditures and why Shelby Energy considers this to be a normal recurring expense.

(2) If Shelby Energy has a formal policy governing meals for employees who are attending meetings, provide a copy of the policy. If it has no such policy, describe how meal expense reimbursements are determined.

c. Refer to the payment listed on page 8 to Eminence Rotary for \$1,000. Describe the nature of this expenditure and explain how it benefits Shelby Energy customers.

d. There are numerous payments listed involving some form of employee training.

(1) Provide an itemized schedule of the training expenses included in this account on pages 6 through 12. Indicate those expenses that are directly attributable to the recommendations of the recently concluded management audit.

(2) Does Shelby Energy consider this level of training expenses to be a normal recurring expense?

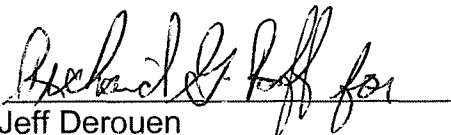
39. Refer to Schedule P of the application. Provide the same data for the 2009 annual meeting that is listed for the prior years' meetings. Also provide an itemized schedule of the total cost of the 2009 annual meeting, indicating those costs removed for rate-making purposes.

40. According to The Kentucky Public Service Commission Report on the September 2008 Wind Storm and the January 2009 Ice Storm, Shelby Energy incurred estimated restoration costs of \$972,469, with an expected reimbursement of \$846,166

by the Federal Emergency Management Agency ("FEMA"), for the January 2009 ice storm. Provide an updated detailed schedule of costs incurred as a result of the ice storm by account and month for the test year. Any actual FEMA reimbursement received should also be reflected on the schedule.

41. According to The Kentucky Public Service Commission Report on the September 2008 Wind Storm and the January 2009 Ice Storm, Shelby Energy incurred estimated restoration costs of \$279,686 as a result of Hurricane Ike. Provide an updated detailed schedule of costs incurred as a result of Hurricane Ike by account and month for the test year.

42. Refer to Shelby Energy's response to Commission Staff's First Data Request, Item 48. Shelby Energy's response is that the subsidiary income included in the test year is \$50,212. On Exhibit V, income from equity investments is shown as \$50,722. Explain the discrepancy of \$510 in the amounts.


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DATED: FEB 22 2010

cc: Parties of Record

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