

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 SECOND INFORMATION REQUEST
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 ten copies of the following information, with a copy to all parties of record. The information requested herein is due on or before September 9, 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 paragraph 1 of the Application. South Kentucky states that it provides service in eleven counties in Kentucky and two counties in Tennessee.

a. Provide the number of Tennessee customers served by South Kentucky.

b. State whether South Kentucky's Tennessee customers are charged the same rates as their Kentucky customers.

c. State whether the Tennessee customers and revenue are included in the revenue summary and billing analysis filed as Exhibits G and J to the Application.

2. Refer to paragraph 12 of the Application. South Kentucky indicates that it has given notice to its members in accordance with 807 KAR 5:001, Section 3-10(3) and (4), and further states that a copy of the notice is attached in Exhibit D.

a. State the manner in which South Kentucky provided notice to its members.

b. Identify the newspapers or trade publications and the dates of publication in each newspaper or publication in which South Kentucky published notice of its Application in this manner.

3. Refer to the revised Exhibit D and the revised proposed tariff for Schedule STL – Street Lighting Service. Revised Exhibit D shows eight different street lights but only two different rates for the eight lights shown. The revised proposed STL tariff shows only two street lights. Explain why the eight street lights listed in revised Exhibit D are not set out separately in the tariff and why it would not be appropriate to do so.

4. Refer to the Application, Exhibit H, the Direct Testimony of Allen Anderson, specifically to Item 11A on page 3, where the current and proposed customer charges for Schedule A and B are listed.

a. Explain how the increase in the customer charge for Schedule A from \$9.14 to \$15 is consistent with the principal of gradualism.

b. Explain how the increase in the customer charge for Schedule B from \$17.14 to \$25 is consistent with the principal of gradualism.

5. Refer to the Application, Exhibit H, the Direct Testimony of James R. Adkins (“Adkins Testimony”).

a. Refer to page 3, Response 7 and Attachment 1.

(1) The first sentence of Response 7 refers to a Times Interest Earned Ratio (“TIER”) of 2.44X. The second sentence refers to a TIER of 2.32. Provide the correct TIER for this case.

(2) The first sentence of Response 7 states that South Kentucky has a capitalization goal of reaching an equity level of 40 percent in 15 years with a

TIER of 2.44. However, in Attachment 1, the TIER necessary to achieve the stated goal is 2.503. Explain this discrepancy.

b. Refer to the last sentence of Response 7 related to restarting payment of capital credits on a 20-year cycle. Provide a detailed description of South Kentucky's plan for paying capital credits.

c. Refer to page 9, Response 17, and page 12, Response 20. Confirm that the references to "Meade County" should be "South Kentucky."

d. Refer to page 10 of the Adkins Testimony and Schedule R, pages 15-22 of 40. On page 10 of his testimony, Mr. Adkins states that "[t]he minimum size method was used to determine the demand related and consumer related components for account 365-overhead conductor. The zero-intercept method was used for account 368-transformers and account 364-poles." The testimony goes on to state that "[t]he minimum size method was used for poles as a reasonable amount was able to be developed using the zero intercept approach." The above two quotes seem to contradict each other with regard to account 364-poles. Pages 15-22 of Schedule R indicate that the zero-intercept method was used for the three accounts 364, 365, and 368. Confirm that this is correct or state which method was used for each account.

e. Refer to the Application, page 13 of the Adkins Testimony and revised Exhibit D. On page 13, Mr. Adkins states that "[t]he increases for the ETS Marketing rates based on the Schedules A and B will remain at a forty percent discount for each contract period. Those ETS customers not under contract will see and (sic) increase in their ETS rates by one third of the difference between the current rate and the rate based on the COSS."

(1) Revised Exhibit D shows the proposed Residential ETS contract rate to be \$.05292. Confirm that 60 percent of the Schedule A residential energy rate of \$.08819 would instead be \$.05291.

(2) It appears from revised Exhibit D that only Residential ETS customers have contracts. Is this correct? If no, explain why only one rate, which is not at a 40 percent discount, is shown for the Small Commercial Marketing Rate.

(3) Provide the number of Residential ETS customers that have contracts and state when the contracts will expire.

(4) State the rate that will be charged to Residential ETS customers with contracts when the contracts expire.

f. Refer to Response 22, page 14 of the Adkins Testimony, where reference is made to South Kentucky's Demand-Side Management ("DSM") activities.

(1) Provide a description of the efforts South Kentucky is currently undertaking to expand existing DSM programs.

(2) Provide the amounts of planned annual DSM expenditures for each of the years ending 2011-2014 and the percentage of these expenditures relative to South Kentucky's projected annual electric sales revenues for each year.

(3) Provide the percentage of projected annual energy efficiency savings relative to projected annual sales for each of the years ending 2011-2014.

6. Refer to the Application, Exhibits G and J. Provide an update to these exhibits based on the rate change approved for South Kentucky on May 31, 2011 in Case No. 2010-00510.¹

7. Provide an updated copy of Exhibits G, J, and R electronically on CD-ROM in Microsoft Excel format with all formulas intact and unprotected. If revisions to these exhibits are necessary as a result of responses to these data requests, provide revised electronic versions of the exhibits as well as hard copies.

8. South Kentucky has a tariff rider for Renewable Resource Energy-Schedule 16. State the number of customers who have chosen this rider, the amount of revenues received during the test year, and the account in which this revenue is recorded.

9. South Kentucky has a Schedule TVB, Unmetered Commercial Service, in its tariff. State the number of customers receiving service under this tariff, the amount of revenues received during the test year, and the account in which this revenue is recorded.

10. In Case No. 2007-00374,² the Commission approved South Kentucky's financing of the acquisition of the fixed assets of the Monticello Electric Plant Board ("MEPB"). In that case, South Kentucky was required to file a tariff for service to

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).

² Case No. 2007-00374, Application of South Kentucky Rural Electric Cooperative Corporation for Approval to Purchase the Fixed Assets of the Monticello Electric Plant Board, Monticello, Kentucky (Ky. PSC Dec. 18, 2007).

MEPB's existing customers at TVA-approved rates. Those tariffs had an expiration date of December 31, 2008.

a. State whether the former MEPB customers have been assimilated into South Kentucky's rate classes. If yes, state whether South Kentucky's tariff pages reflecting the TVA-approved rates for the MEPB customers can be deleted. If no, explain.

b. State whether the former MEPB revenues and customers are reflected in Exhibits G and J of the Application. If no, explain.

11. Refer to the Application, Exhibit K.

a. Refer to page 1, the column entitled "Actual Test Year" and the row entitled "Total". Have the non-cash patronage dividends of \$4,491,817 been included twice in the total number of \$18,805,403? If so, provide a corrected schedule.

b. Refer to page 2. The amount for Materials has increased 74 percent from September 2009 to September 2010. Provide an explanation for this level of increase.

c. Refer to page 3, the column entitled "Test Year 2010" and the row entitled "Total" in the section "Return excluding G&T patronage dividends". Explain the basis for the amount listed as \$8,968,569.

d. Refer to page 7. Explain the basis for the numbers, other than long-term debt, listed in the column entitled "Proposed."

12. Refer to the Application, Note 15, page 13, Exhibit N and Exhibit 5.

a. In Note 15, South Kentucky's auditor discusses a Department of Energy grant and matching loan. Identify any portion of the matching loan included on Exhibit 5.

b. Provide an update for the expenditures and benefits of the project.

13. Refer to Exhibit R, pages 7 and 8 of 40.

a. Refer to page 7.

(1) The basis for allocating Accounts 583, Overhead Line Exp., and 584, Underground Line Exp., is shown as "DA" for directly assigned. Confirm that, instead of being directly assigned, these accounts were allocated based on footnote 1 from page 9 of 40.

(2) The basis for allocating Account 587, Consumer Installations, is shown as footnote 2. Confirm that instead this account was directly assigned.

b. Refer to page 8.

(1) Account 935, Maintenance of General Plant, is shown as having been allocated using the General Plant percentages from the Rate Base Schedule. However, the allocation appears to be based on Rate Base percentages from the Rate Base Schedule. Confirm that Rate Base percentages were incorrectly used. If a correction is needed, provide copies of all exhibits that would be revised as a result of the correction.

(2) Depreciation–Distribution Plant and Depreciation–General Plant are shown as having been allocated using the Net Plant percentages from the Rate Base Schedule. However, the allocation for Depreciation–Distribution Plant

appears to be based on the Distribution Plant percentages and Depreciation--General Plant appears to be based on the General Plant percentages from the Rate Base Schedule. Confirm that South Kentucky intended to use these allocation percentages. If not, and a correction is needed, provide copies of all exhibits that would be revised as a result of the correction.

(3) The basis for allocating Total Miscellaneous Expense of \$117,015 is shown as Total Plant. However, it appears that Total Miscellaneous Expense is allocated based on the Rate Base percentages. Confirm that South Kentucky intended to use this allocation percentage. If not, and a correction is needed, provide copies of all exhibits that would be revised as a result of the correction.

14. Refer to Exhibit R, page 9 of 40, footnote 6 at the bottom of the page. Explain where in the COSS the allocations calculated in footnote 6 are used.

15. Refer to Exhibit R, page 10 of 40. Explain why Account 597, Maintenance of Security Lights, in the amount of \$358,094, appears in the "Transformers" column instead of the "Security-Lighting" column. If a correction is needed, provide copies of all exhibits that would be revised as a result of the correction.

16. Refer to Exhibit R, page 23 of 40.

a. This appears to be the first page of a two-page schedule; however, a second page is not included. Provide the second page of this schedule or, if this is a one-page schedule, explain why all of the rate classes are not included.

b. Explain why Rate 4 is identified at the top half of this page as "Large Power" but is identified at the bottom half of the page as "Small Commercial".

c. Provide the location in the COSS of the percentage allocation calculations for Purchased Power Demand and Purchased Power Energy.

d. Refer to the bottom section of the page. Under the column entitled "Amount" for the rows entitled "Energy Related" and "Revenue Requirements" there are errors for the amount of each. Provide the correct amounts.

17. Refer to Exhibit R, pages 32-34 of 40.

a. Refer to the Lines table at the top of page 32. Explain why, for Rate 6, Residential ETS, and Rate 7, Small Commercial ETS, no customers are shown in this table when customers are shown for these rate classes in Exhibit J.

b. Refer to the Transformers table at the bottom of page 32. The amounts in the "Relative Weight" column do not equal column 3 multiplied by column 4 for Rate 4, Large Power, and Rate 5, Optional Power Services. Explain how the amounts in this "Relative Weight" column were calculated for these two classes.

c. Refer to the Meters table at the bottom of page 33. Explain why the allocation percentages are zero for rate classes 17, LP-1, LP-2, and LP-3.

d. Refer to the Consumer and Accounting Services table on page 34.

(1) Explain how the 7,125 in the "Allocation Percent" column for the Outdoor Lighting class was calculated.

(2) Explain how the 113 in the "Allocation Percent" column for the Decorative Street Lighting class was calculated.

18. Refer to Exhibit R, page 35 of 40. Other Revenue was allocated to the rate classes based on Actual Revenue from Rates for each class to Total Actual Revenue from Rates. State whether Other Revenue could have been directly assigned.

If yes, explain why it was not directly assigned. If no, explain why it cannot be directly assigned.

19. Refer to Exhibit R, page 38 of 40. Provide the calculations for the energy charge of \$.06705 for the Residential ETS class and the \$.07405 for the Small Commercial ETS class.

20. Refer to the Application, Exhibit S.

a. Refer to page 1 which shows the amount of the proposed increase based upon attaining a TIER of 2.43X. Describe how South Kentucky determined that 2.43 was the appropriate TIER on which to base the requested increase.

b. Refer to page 2, the column entitled "Adjustments to Test Year" and the row entitled "In service." Provide a breakdown of the assets contained in the \$14,218,717 amount.

c. Refer to page 3.

(1) An adjustment of \$5,237,525 is shown to Base Rates. However, this amount does not reconcile with Adjustment 15, Normalization of Revenue. Explain how this amount was calculated.

(2) An adjustment of \$5,144,971 is shown to Cost of Power. This amount does not appear in Exhibit 14, Normalization of Purchased Power. Explain how this amount was calculated.

21. Refer to Item 9 in the Response to Commission Staff's First Request for Information ("Staff's First Request"), which provides a comparison of income statement account levels for the test period and the twelve months preceding the test period.

a. Refer to page 2 of the Response. Provide a detailed breakdown of Accounts 450, Forfeit Discount; 451, Miscellaneous Service Revenue; 454, Rent from Electric Property; and 456, Other Electric Revenue.

b. For Accounts 450, 451, 454, and 456, provide the September 30 balances of these accounts for the most recent five-year period.

c. Account 586.00, Meter Expense, increased from \$981,246 in the twelve months preceding the test year to \$1,121,474 in the test year. Provide a detailed explanation for why this expense increased by this magnitude.

d. Account 587.10, Consumer Inspections (Credits), increased from \$100,062 in the twelve months preceding the test year to (\$5,364) in the test year. Provide a detailed explanation for a decrease of this magnitude.

e. Page 4 shows that Account 593.50, Maintenance of Overhead Lines–Right-of-Way, increased from \$2,507,795 in the twelve months preceding the test year to \$3,447,528 in the test year. Provide a detailed explanation for why this expense increased by this magnitude. Account 597, Meter Maintenance Expense, decreased from \$26,774 in the twelve months preceding the test year to \$18,815 in the test year. Provide a detailed explanation for the decrease in this expense.

f. Account 598, Maintenance of Miscellaneous Distribution Plant, increased from \$329,364 in the twelve months preceding the test year to \$369,491 in the test year. Provide a detailed explanation for why this expense increased by this magnitude.

g. Page 6 shows that Account 923, Outside Services Expense, decreased from \$239,976 in the twelve months preceding the test year to \$134,980 in

the test year. Provide a detailed explanation for why this expense decreased by this magnitude.

h. Account 923.10, Outside Services Expense--Economic Development, increased from \$254,247 in the twelve months preceding the test year to \$283,873 in the test year.

(1) Describe the nature and purpose of this account.

(2) Provide a detailed explanation for why this expense increased by this magnitude.

(3) Explain why Account 923.10 is not listed in Exhibit M, Chart of Accounts, or Exhibit Y, Trail Balance.

(4) Explain why South Kentucky considers this to be an allowable expense for ratemaking purposes.

i. Account 928, Regulatory Commission Expense, decreased from \$27,502 in the twelve months preceding the test year to \$7,797 in the test year. Provide a detailed explanation for why this expense decreased by this magnitude.

j. Page 7 shows that Account 930.21, Directors Expenses, increased from \$233,491 in the twelve months preceding the test year to \$565,435 in the test year. Provide a detailed explanation for why this expense increased by this magnitude.

k. Account 930.23, Annual Meeting Expense, increased from \$142,709 in the twelve months preceding the test year to \$183,130 in the test year. Provide a detailed explanation for why this expense increased by this magnitude.

l. Account 930.31, Miscellaneous General Expense—People Fund, increased from (\$98,405) in the twelve months preceding the test year to \$144,676 in the test year.

(1) Describe the nature and purpose of this account.

(2) Provide a detailed explanation for why this expense increased by this magnitude.

(3) Explain why South Kentucky considers this to be an allowable expense for ratemaking purposes.

m. Page 8 shows Account 408.70, Regulatory. Explain what this account is and why it is not listed in Exhibit M, Chart of Accounts, or Exhibit Y, Trial Balance.

n. Account 431.00, Interest Expense on Consumer Deposits, decreased from \$170,294 in the twelve months preceding the test year to \$59,074 in the test year. Provide a detailed explanation for why this expense decreased by this magnitude.

o. Account 431.10, Short Term CFC Loan Interest Expense, decreased from \$81,356 in the twelve months preceding the test year to \$0 in the test year. Provide a detailed explanation for why this expense decreased by this magnitude.

p. Page 9 shows Account 419.0, Interest Income. Provide the complete account number.

q. Account 418.0, Equity Investments, decreased from \$3,976 in the twelve months preceding the test year to (\$100) in the test year. Provide an explanation for this decrease and the complete account number.

r. Account 415.01, Revenue from ETS Heaters, declined from \$91,621 in the twelve months preceding the test year to \$42,391 in the test year. Provide an explanation for why this revenue declined by this magnitude.

s. Page 10 shows Account 416.02, Cost of ETS Heater, decreased from \$124,465 in the twelve months preceding the test year to \$79,914 in the test year. Provide a detailed explanation for why this account decreased by this magnitude.

t. The account balances for Account 415.01, Revenue from ETS Heaters, and Account 415.04, Revenue from Water Heaters, are listed in Schedule X as debit accounts. Account 416.02, Cost of ETS Heaters, and Account 416.04, Cost of Water Heaters, are listed in Exhibit X as credit accounts. However, in Exhibit Y, Trial Balance, the test year end balances for the revenue accounts are treated as credits and the expense accounts are treated as debits. Provide a detailed explanation of South Kentucky's accounting treatment of these items and if corrections are needed, provide copies of all exhibits that would be revised as a result.

u. Page 11 shows Account 424.0, Total Other Patronage, increased from \$115,202 for the twelve months preceding the test year to \$261,565 for the test year. Provide a detailed explanation for why this account increased by this magnitude.

22. Refer to Item 10 of the Response to Staff's First Request where South Kentucky states that it does not have property held for future use. Describe the current use of the property listed in the Response to Item 11 of the Staff's First Request, if any of the property has any anticipated future use, and if so, what that use might entail.

23. Refer to the Application, Exhibit 1, page 1.

a. In the first paragraph, it states, "Overtime pay is calculated at 1 and ½ times regular pay for 8 hours worked per day." Confirm this statement is incorrect and provide the correct language.

b. In the second paragraph on the page, it states, "A cost of living increase of 0.50% was granted."

(1) When was the decision made to grant the cost of living increase?

(2) Provide the authority for the cost of living increase.

(3) What was the effective date of the cost of living increase?

(4) Was the cost of living increase given to all employees?

(5) Explain when the cost of living increase will be given to affected employees.

(6) Explain how the cost of living increase was factored into the wages reflected in South Kentucky's request for a rate increase.

(7) Explain the difference in South Kentucky's definition of a cost of living increase and a normal salary increase.

24. Refer to the Application, Exhibit 1.

a. Page 2 of the exhibit shows the Labor Distribution of test year payroll. Describe the methods used by South Kentucky to distribute test-year payroll to the accounts listed on page 2. These methods may include, but not be limited to, direct time reporting, allocations based on time studies, or allocations based on other factors. Also, discuss the internal controls used by South Kentucky to ensure that the

distribution of payroll costs properly matches the actual work performed by its employees.

b. State the method used to determine the allocation percentages for the \$93,267 salary decrease, on page 2, to the accounts receiving a portion of the decrease and provide work papers showing the calculation of the allocation percentages.

c. Page 3 of the exhibit contains a breakdown of the actual test-year wages and the normalized wages.

(1) In the column for "Hours Worked" for the Actual Test Year wages, the regular hours worked for all employees is 2,088 hours. Explain the basis for using 2,088 hours for the regular hours worked for the actual test-year wages.

(2) For Normalized Wages, 2,080 hours was used as the basis the computation of wages. As a result, the regular wages for all salaried personnel in the actual test year was more than for the normalized test-year. Confirm that this is correct. If not, provide the appropriate corrections for all personnel wages and affected exhibits.

25. Refer to Exhibit 1, pages 2 and 7.

a. The total wages for the test year listed on page 2 do not equal the amount on page 7. Provide an explanation and all applicable corrections.

b. Refer to lines 14 and 15, page 7, for the test year.

(1) Explain why overtime wages did not decrease as much as the overtime hours decreased when comparing the test year with the twelve-month period ending in 2009.

(2) Explain why the overtime hours for the test year are less than any of the prior years listed.

26. Refer to the Application, Exhibit 1, pages 3-6.

a. For each employee listed in Table 1 below, explain in detail why they worked less than 2,080 hours in the test period.

	Employee No.	Regular Hours
(1)	328	1,828.0
(2)	353	1,644.0
(3)	376	1,840.0
(4)	586	2,035.5
(5)	597	2,053.0
(6)	614	2,059.5
(7)	617	2,070.0
(8)	628	2,040.0
(9)	636	1,756.0

b. Explain why 2,080 hours was used in calculating normalized wages rather than the actual hours worked during the test period.

27. Refer to the Application, Exhibit 3, Pages 1 and 2. The first paragraph on page 1 states that, "the ending plant balance is multiplied by rates that are within RUS approved guidelines." This calculation is shown on page 2. Provide a copy of the referenced RUS guidelines.

28. Refer to the Application, Exhibit 3, page 2.

a. State whether South Kentucky has received Rural Utility Service's ("RUS") approval of the proposed depreciation rates.

(1) If yes, provide a copy of RUS's approval letter.

(2) If no, state when RUS's approval is anticipated and submit a copy of the RUS approval letter after it is received by South Kentucky.

b. Explain what steps and procedures are necessary for RUS to accept depreciation rates that do not fall within the "RUS Low and High" range.

c. Explain what authority RUS has to accept or reject the rates proposed as a result of the depreciation study.

29. Refer to the Application, Exhibit 3, page 3 of 7, which shows the test-year actual and normalized total depreciation expense and the test-year actual and normalized depreciation expense charged to transportation clearing.

a. Provide the same information for each of the calendar years 2000 to 2009.

b. State specifically the non-regulated activities to which depreciation has been allocated and provide the work papers showing the calculation of the allocated amounts.

30. Refer to the Application, Exhibit 3, Page 5. Provide a detailed general ledger transaction report for each asset account group showing each plant addition and retirement entry during the test year. Include a complete description for each transaction shown in the report.

31. Refer to the Application, Exhibit 3, pages 2, 5, and 7. On page 2, normalized depreciation for meters, for which rate recovery has been requested, is calculated by multiplying the test-year ending balance for the meter account, \$19,636,215, by a deprecation rate of 6.67 percent. From the information shown on page 5, it appears that \$4,342,638 of the test-year ending balance (\$4,557,790, beginning test-year balance minus \$215,152, test-year retirements) represents the cost of older mechanical meters that, according to the Application at page 7, will be entirely

replaced within the next three years with new Advanced Metering Infrastructure (“AMI”) meters. In light of the fact that depreciation on 95.3 percent (\$4,342,638/\$4,557,790) of the existing mechanical meters appears to be included in the calculation of normalized depreciation, explain why also including, for rate recovery, amortization of the anticipated loss on the retirement of the mechanical meters, as shown on page 7, does not represent a double recovery of the cost of the mechanical meters.

32. Refer to the Application, Exhibit 3, page 4 of 7, which shows distribution plant in service, accumulated depreciation for distribution plant, and the reserve ratio percentages for distribution plant for each of the years 1995 through 1999 and 2005 through 2009. Provide the same information as of the end of the test year and for the years from 2000 through 2004.

33. Refer to the Application, Exhibit 3, Pages 5 and 7.

a. State the total anticipated cost of replacing all mechanical meters with AMI and provide documentation supporting the anticipated cost.

b. Provide a copy of the grant and matching loan documents from the Department of Energy (“DOE”).

c. Provide the amounts and the dates on which DOE grant funds have been received to date.

d. Provide the amounts and the dates on which DOE loan funds have been received to date.

e. Provide the amounts and the dates all future DOE grant funds are expected to be received.

f. Provide the amounts and the dates all future DOE loan funds are expected to be received.

g. State why South Kentucky proposes to record the removal of the retired meters by debiting Accounts 108.60, Accumulated Depreciation, in the amount of \$824,093 and 186.37, Deferred Meter Retirement, in the amount of \$3,723,716 instead of debiting the entire amount to Account 108 as required by the Uniform System of Accounts.³

h. Explain how the five-year amortization period for the deferred meter retirement account was determined. Include in this discussion, all other amortization periods that were considered and why they were not chosen. Specifically, discuss why an amortization period equal to the estimated average life of the new, replacement meters was not chosen as the amortization period.

i. On page 5, additions to meters are shown in the amount of \$15,293,577. Is this amount shown gross or net of any grant funds received from DOE prior to the end of the test year?

34. Refer to the Application, Exhibit 3, page 7 of 7, and Case No. 2009-00489,⁴ which address South Kentucky's proposed adjustment for retirement of mechanical meters and the installation of AMI meters.

³ Department of Agriculture, Rural Utilities Service, 7 CFR Pat 1767, Accounting Requirements for RUS Electric Borrowers, Page 747, Account 108, B.

⁴ Case No. 2009-00489, Application of South Kentucky Rural Electric Cooperative Corporation for a Certificate of Convenience and Necessity to Install an Advance Metering Infrastructure System ("AMI") (Ky. PSC Jan. 19, 2010).

a. Provide a schedule showing how many meters have been retired as of September 30, 2010 and a specific timeline for retiring the remainder of the mechanical meters.

b. Provide a status report on the installation of the AMI meters including a timeline for completion of the project.

c. Are meter purchases capitalized directly into Account 370?

d. Does South Kentucky have a predetermined cost of operation or maintenance capitalized in conjunction with the capitalization of the cost of meters?

e. Provide an analysis on what the completion of the AMI project will have on expense Accounts 586.00, Meter Expense, 597.00, Meter Maintenance, and 902.00, Meter Reading.

f. Provide the total expense for the accounts listed in the Response to part e., above, for the most recent five years.

g. Provide the estimated amount of annual expense for Account 902.00, Meter Reading, which South Kentucky expects to incur after completion of the AMI project.

h. Will all of the meter bases in use by South Kentucky's customers accommodate the new AMI meters without the need to modify or replace the meter bases? If no, explain in detail the types and number of meter bases that will have to be modified or replaced, the cost per meter base and total cost for the modifications and replacements, and whether the cost to modify or replace will be paid by South Kentucky or by the customer.

i. If any costs will be incurred by South Kentucky for the modification or replacement of meter bases, state whether those costs are reflected within the pending rate application, exhibits, and schedules, and if so, where the costs are reflected.

j. If any costs to modify or replace the meter bases will be paid directly by a South Kentucky customer, explain the reasons why the customer pays those costs and describe the procedures for notifying the customer of the need to modify or replace the meter base.

35. Refer to the Application, Exhibit 4, pages 1 and 2.

a. Provide a detailed explanation for the property tax adjustment.

b. In Case No. 2008-00371,⁵ the Commission authorized South Kentucky to construct a new headquarters facility.

(1) Provide a status report on this construction including costs incurred to date for land, engineering, structures, etc. by account and year.

(2) Provide a timeline for completion of the construction.

(3) Explain whether the construction has impacted the proposed property tax adjustment.

(4) Explain how the completed construction will affect operating expenses.

c. Refer to the Analysis of Other Operating Taxes on page 2.

⁵ 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).

(1) Explain why no adjustment was made to Other Taxes listed on Line No. 1.(e) to reflect an increase in Account 408.70, Public Service Company Assessment Fee, which would result from the proposed revenue increase in this case.

(2) Explain why Account 408.70 is not listed in Exhibit M, Chart of Accounts or Exhibit Y–Trial Balance.

36. Refer to the Application, Exhibit 5, page 2. This is a schedule of South Kentucky’s outstanding long-term debt. Provide an update of the schedules on pages 1-3 that reflect the current interest rates for long-term debt applied to the long-term debt balances as of the end of the proposed test year as a result of Case No. 2010-00355.⁶

37. Refer to the Application, Exhibit 8. In the first paragraph of page 1, it states that “South Kentucky offered an alternative to he (sic) reduce the premiums for both the employer and employee through the option of a PPO or a Health Savings Account (HAS).”

a. Provide a schedule showing which plan the employees chose for 2011 as well as the resulting cost.

b. If the amount of the medical adjustment has changed since the submission of the Application, provide updates to all affected exhibits.

38. Refer to the Application, Exhibit 9, page 1, third paragraph, regarding the hiring of a consulting firm, Garland & Associates, to perform economic development activities.

⁶ Case No. 2010-00355, Application of South Kentucky Rural Electric Cooperative Corporation for Authorization to Borrow \$10,074,440 from The National Rural Utilities Cooperative Finance Corporation and Execute Necessary Note to Prepay Rural Utilities Service 5 Percent Notes of the Same Amount (Ky. PSC Sept. 23, 2010)

a. Describe the process the board of directors followed for selecting a consulting firm to perform the economic development activities.

b. Were any other consulting firms considered in the hiring process?

c. Provide an explanation as to what benefits South Kentucky has received to date, including any specific projects, as a result of the consulting efforts of Garland & Associates.

39. Refer to the Application, Exhibit 12, where South Kentucky estimates the expenses associated with this rate case. On a monthly basis, beginning in October 2010, provide the amount of South Kentucky's actual rate case expenses, by category, as was done in the estimate. Consider this an ongoing request which is to be updated monthly.

40. Refer to the Application, Exhibit 16, the Year End Customer Growth Adjustment.

a. This calculation uses a twelve-month average. In recent rate cases filed with the Commission,⁷ the customer growth adjustment has been calculated using a thirteen-month average. Explain the basis for using a twelve-month average.

b. Explain why the rate class AES (All Electric Schools) as well as the residential and small commercial ETS rate classes are not included in the customer growth adjustment.

⁷ Recent cases in which a thirteen-month average was used in the calculation include Case No. 2010-00222, Application of Meade County Rural Electric Cooperative Corporation to Adjust Electric Rates (Ky. PSC Feb. 17, 2011) and Case No. 2009-00410, Application of Shelby Energy Cooperative, Inc. for an Adjustment of Rates (Ky. PSC Jul. 27, 2010).

- c. Explain the calculation of the "Change" for Rate B and Rate STL.
- d. Provide the origin of the "TY Base Revenues" for Rate B and Rate STL.
- e. Provide the origin of the "Energy kWh" for Rate B, Rate STL, Rate OL, and Rate DSTL.
- f. Provide the origin of "Total Consumers" for Rate STL and Rate OL.
- g. Explain how "Purchased Power Costs" were calculated.
- h. Revise this exhibit for corrections made in response to any of the above subparts to this question and for the revision made to Exhibit J in Response to Item 6 of this request for information. File this response in both hard copy and electronic format with the formulas intact and unprotected.

41. Refer to the Application, Exhibit 18. Explain why the total amount for Benefits Distribution of \$4,056,906 does not match the total Benefits of \$4,053,509.

42. Refer to the Application, Exhibit 19, page 1 of 3, which shows the payment of capital credits to its members on an annual basis beginning with calendar year 2005. Provide a schedule of South Kentucky's capital credit payments for all years since the inception of the plan in the same format as used in the exhibit.

43. Refer to Application, Exhibit 20, which contains South Kentucky's depreciation study.

a. Refer to the first paragraph on page 1.

(1) Describe the differences in the "construction unit cost basis" and the "record unit basis" for maintaining continuing property records.

(2) State the reasons South Kentucky switched from the construction unit basis to the record unit basis.

b. Refer to the second paragraph on page 1.

(1) South Kentucky states that vintage accounting is a system where a plant is accounted for by year of installation and that South Kentucky did not use vintage accounting for mass property. Explain why the information provided by South Kentucky in Exhibit 20, Section 8, does not represent vintage accounting.

(2) Mr. Adkins states that, in the absence of vintage accounting, simulated plant records were created. Using the simulated plant records, Mr. Adkins assigned Iowa Type Survivor Curves to determine the average service life for each distribution asset account group. He also created simulated plant records in the depreciation studies he recently prepared for Blue Grass Energy Cooperative ("Blue Grass") in Case No. 2008-00011⁸ and for Clark Energy Cooperative ("Clark Energy") in Case No. 2009-00314.⁹ The average service lives assigned to each distribution asset account group of South Kentucky, Blue Grass, and Clark Energy are shown in Table 2.

Also listed in Table 2 are the estimated average service lives assigned to the electric distribution assets of investor owned utilities ("IOU's") Kentucky Utilities Company, Louisville Gas and Electric Company, and Duke Energy Kentucky,

⁸ Case No. 2008-00011, The Application of Blue Grass Energy Cooperative Corporation for an Adjustment in Its Electric Rates (Ky. PSC Aug. 28, 2008). See the Application, Exhibit 3, Service Life and Net Salvage Study, Scope, First Page, Paragraphs 2 and 3.

⁹ Case No. 2009-00314, Application of Clark Energy Cooperative, Inc. for an Adjustment of Rates (Ky. PSC Apr. 16, 2010). See the Application, Exhibit 3, Service Life and Salvage Study and Recommended Depreciation Accrual Rates, Scope, First Page, Paragraphs 2 and 3.

Inc. in depreciation studies submitted to the Commission in Case Nos. 2007-00565,¹⁰ 2007-00564,¹¹ and 2006-00172,¹² respectively. Each study was prepared by John Spanos of Gannet Flemming. In these studies, Mr. Spanos used the retirement rate method to assign survivor curves to each plant account group. The retirement rate method includes a combination of actual plant retirement data and statistically aged plant data.¹³

For comparative purposes, the lives assigned by the three rural electric cooperative corporations (“RECC’s”) to each asset account group were averaged and shown in Table 2, along the averaged lives assigned by the three IOU’s. As shown in Table 2, except for Line Transformers and Installations on Customers’ Premises, the averaged lives assigned to RECC distribution assets are significantly shorter than those assigned by IOU’s.

(c) Discuss the reasons that Mr. Adkins’ application of the Simulated Plant Records (“SPR”) method results in such a significantly shorter life for the majority of distribution plant account groups when compared to Mr. Spanos’ life assignments using the Retirement Rate Method.

¹⁰ Case No. 2007-00565, Application of Kentucky Utilities Company to File a Depreciation Study (Ky. PSC Feb. 5, 2009).

¹¹ Case No. 2007-00564, Application of Louisville Gas and Electric Company to file Depreciation Study (Ky. PSC Feb. 25, 2009).

¹² Case No. 2006-00172, An Adjustment of the Electric Rates of the Union Light, Heat and Power Company D/B/A Duke Energy Kentucky, Inc. (Ky. PSC Dec. 21, 2006).

¹³ Case No. 2007-00565, Application, Part 1, Direct Testimony of John Spanos, Depreciation Study, Part II, Page II-10; Case No. 2007-00564, Application, Part 1, Direct Testimony of John Spanos, Depreciation Study, Part II, Page II-10; and Application of Duke Energy, Volume 8, Depreciation Study filed to satisfy 807 KAR 5:001, Section 10(9)(s), Part II, Page II-10.

(d) Explain how the absence of actual plant retirement data by vintage may result in the assignment of shorter lives by the RECC's than the lives assigned by the IOU's who have this retirement data.

(e) Explain how the judgment required when developing the Iowa Type Survivor Curve analysis impacts the lives assigned to each asset group, and how the physical make-up of the RECC's distribution plant is different than that of the IOU's resulting in shorter average service lives.

(f) Identify and describe the factors that cause equipment of RECC's, other than Line Transformers and Installations on Customers' Premises, to have a shorter economic life than similar equipment of IOU's.

Table2

Distribution Plant	Average Life based on Survivor Curve Analysis						Average	
	Rural Electric Cooperative Corp. (RECC)			Investor Owned Utilities (IOU)			RECC	IOU
	South Kentucky 2011-00096	Blue Grass Energy 2008-00011	Clark Energy 2009-00314	Kentucky Utilities 2007-00565	Louisville Gas & Electric 2007-00564	Duke Energy 2006-00172		
Station Equipment	10	24		52	55	45	17	51
Poles, Towers and Fixtures	32	39	31	48	50	44	34	47
Overhead Conductor and Devices	29	29	22	48	45	44	27	46
Underground Conduit	45		36	55	70	65	41	63
Underground Conductors and Devices	23	22	25	44	50	60	23	51
Line Transformers	45	38	33	40	45	42.5	39	43
Service (Pole to House)	28	22	47	43	45	51.5	32	47
Meters	24	22	12	40	30	28	19	33
Meters, AMR								
Installations on Customers' Premises	24	31	17	20		25	24	23
Street Lighting & Signal Systems	15	23	14	33	32.5	30	17	32

44. Refer to the Application, Exhibit 20, Scope, first page, third paragraph.

a. Describe how the SPR method is used to analyze data to fit the data to the "best curve."

b. Is the SPR method used in Exhibit 20 recognized by the Society of Depreciation Professionals as an acceptable method?

45. Refer to the Exhibit 20, Scope, second page, third paragraph. It states that, "[t]he most likely retirement patterns and average service lives were developed

based on the SPR analysis.” State specifically how the retirement patterns and average service lives were developed using the SPR analysis. Include in the response, discussion of the degree of professional judgment required when developing the retirement patterns and average service lives.

46. Refer to the Exhibit 20, Scope, second page, third paragraph. It states that the SPR analysis was “analyzed for appropriateness and a curve and service life were selected for each account.”

a. State specifically the type of analysis performed. Include in the response, discussion of the degree of professional judgment required in this analysis.

b. State what is meant by appropriateness. Include in the response, discussion of the degree of professional judgment required when determining the appropriateness.

c. State specifically how a curve and service life was selected for each asset account group. Include in the response, discussion of the degree of professional judgment required when making these selections.

47. Refer to the Application, Exhibit 20, Scope, second page, fourth paragraph; Exhibit 20, Section 3, page 1; and Exhibit 20, Section 7.

a. In the Scope, South Kentucky states that net salvage was allocated to the primary account on a percentage basis. Provide the calculation of the allocations and explain why the allocations are appropriate.

b. In Section 3, the salvage is stated as a percentage of original cost.

(1) Explain why net salvage was not allocated to Station Equipment, Line Transformers, Meters, or Street Lighting.

(2) Explain why salvage value was allocated to underground conduit.

c. By applying the salvage percentages to original cost as stated on Section 3, total net salvage is a negative \$57,658,395. Section 7 appears to detail historical salvage values. Show how the \$57,658,395 was derived from the information shown in Section 7. If the \$57,658,395 was not derived from the information shown in Section 7, provide work papers detailing its calculation.

48. Refer to the Application, Exhibit 20, Scope, second page, last paragraph, first line. This line reads, "When utilizing the **whole** life method" Is this accurate or is this sentence actually referring to the **remaining** life method?

49. Refer to the Exhibit 20, Scope, third page, second paragraph, and page 4.

a. Provide all engineering data available to South Kentucky supporting the fifteen-year service life assigned to AMI meters.

b. From information provided by South Kentucky in its Application, it is understood that South Kentucky will replace all existing meters with AMI meters within the next three years. Explain why it is appropriate to assign a fifteen-year depreciable life to the new AMI meters when the analysis provided by South Kentucky in its depreciation study at Section 4, page 15, establishes the historic average life of a meter at twenty-four years.

c. Refer to page 4. Provide a list of other RECC's who utilize a fifteen-year depreciable life for recently installed AMI devices.

50. Refer to the Application, Exhibit 20, Scope, fourth page, second paragraph. It is stated that, "[t]he study findings are based upon many factors and

assumptions” Provide all factors and assumptions used in the development of the depreciation study.

51. Refer to the Application, Exhibit 20, Scope, fourth page, last paragraph and Exhibit 20, Section 3, page 3. In the Scope, South Kentucky states that whole life depreciation was chosen based on “asset lives” and the “current reserve ratio.” In Section 3, South Kentucky provides information showing that accumulated depreciation per books is \$40,945,888, or \$25,832,989 (39 percent) less than the calculated reserve of \$66,778,877 using the results of the depreciation study.

a. Explain how the “asset lives” were considered in the determination to use whole life depreciation rates instead of remaining life depreciation rates.

b. Explain how the “current reserve ratio” was considered in the determination to use whole life depreciation rates instead of remaining life depreciation rates.

c. Explain how the 39-percent deficit in the booked accumulated depreciation account compared to the calculated reserve was taken into consideration when determining whether to use whole life depreciation rates or remaining life depreciation rates.

52. Refer to the Application, Exhibit 20, Section 3, page 1.

a. The amounts listed as future accruals for each Distribution Plant Account are determined in Exhibit 20, Section 5, which is based on simulated plant balances. Explain why it is appropriate to calculate the annual accrual amounts using the future accruals that are based on the simulated balances instead of the actual book balances.

b. Is the use of future accruals that are based on simulated balances a method accepted by the Society of Depreciation Professionals?

53. Refer to the Application, Exhibit 20, Section 4.

a. Presented in Section 4 are the service life statistics for each asset account group. One of the statistics included for each account group is the "Historical Percent Surviving." Explain how these percentages were determined. Include in the response, discussion of the degree of professional judgment required in the determination of these percentages.

b. Page 1 and page 2 are the service life statistics for Account 362, Station Equipment. This information includes the simulated plant survivors for each year. The simulated plant-survivor percentages indicate that no station equipment placed into service prior to 1992 remained in service at the time the depreciation study was completed.

(1) In the judgment of Mr. Adkin's, is it reasonable to expect that no substation plant remains in service today that was placed into service prior to 1992? Explain.

(2) Explain the changes in the ending balances for Account 362 from 2006 through 2008.

54. Refer to the Application, Exhibit 3, Section 1, page 1, and Exhibit 20, page 3, which contain statements that South Kentucky has never had a depreciation study performed before the current study. Item 3 on page 3 of Section 2 of Exhibit 20 states that rates higher or lower than those in the RUS range may be used when supported by a depreciation study. Page 4 of Section 2 of Exhibit 20 contains a chart at the bottom of

the page which shows that distribution plant Accounts 365, 366, 367 and 370 have current depreciation rates that exceed the RUS high range. Plant Accounts 369, 371, and 373 have current depreciation rates that are lower than the RUS low range.

a. Explain how South Kentucky is able to utilize the current rates in excess of the RUS high or low range when there has not been a prior depreciation study.

b. Explain the factors unique to South Kentucky that cause its depreciation rates to be higher or lower than the RUS range for the distribution plant accounts.

c. Explain how past ice storms have been accounted for in South Kentucky's accounting records.

d. Explain what impacts past ice storms have had in increasing depreciation rates for the distribution plant accounts.

e. Provide a schedule showing a comparison of the retirement of poles and overhead conductor from Accounts 364 and 365, respectively, along with a schedule of poles and overhead conductor planned to be retired as contained in South Kentucky's construction work plans for the calendar years 2001 through 2010. Provide the overhead conductor information both in terms of cost, type, and length.

55. Explain why South Kentucky did not propose an adjustment to cable television attachment rates in its Application.


56. Explain why South Kentucky did not propose adjustments to other charges such as connections, disconnections, meter testing, returned checks, etc. in its Application.

57. Refer to South Kentucky's last rate case, Case No. 2005-00450.¹⁴ In the settlement, South Kentucky agreed to amend its bylaws concerning the qualification of directors and adopt a board policy that promotes the avoidance of nepotism, self-dealing, and conflicts of interest.

a. In the test year and the twelve months preceding the test year, has South Kentucky violated any of the amendments to the revised bylaws?

b. If the answer to a. above is affirmative, provide a detailed description of the violation(s).

c. If South Kentucky made purchases from businesses owned by any member of the Board of Directors in the timeframe listed in a. above, provide a schedule of each purchase and explain how it was determined to be the least cost alternative or the best and most cost efficient alternative.



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DATED: **AUG 26 2011**

cc: Parties of Record

¹⁴ Case No. 2005-00450, Adjustment of Rates of South Kentucky Rural Electric Cooperative Corporation (Ky. PSC Aug. 31, 2006).

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