


  
**INTER COUNTY**  
ENERGY COOPERATIVE

A Touchstone Energy Cooperative 

**RECEIVED**

FEB 16 2007

**PUBLIC SERVICE  
COMMISSION**

February 16, 2007

Ms. Beth O'Donnell  
Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
Frankfort, Kentucky 40602

**Re: Case No. 2006-00415**

Dear Ms. O'Donnell:

Please find enclosed the original and six (6) copies of the responses to the Commission's Order "Second Data Request of Commission Staff to Inter-County Energy Cooperative" dated February 2, 2007.

If you have any questions, please do not hesitate to call.

Sincerely,



James L. Jacobus  
President/CEO

Copy To: Attorney General  
Utility & Rate Intervention Division  
1024 Capital Center Drive  
Frankfort, KY 40601



Inter County Energy  
Case No. 2006-00415  
Second Data Request of Commission Staff

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**PUBLIC SERVICE  
COMMISSION**

1. Refer to the Application, page 2, Item 12(b). Inter County states that "its financial operations have deteriorated substantially over the past few years." Explain why Inter County did not file a rate application before 2007.

Response

The margins and financial situation for Inter County had been declining slightly every year until 2005. Inter County considered filing a rate application using 2005 as the test year, however, it was decided that maybe it was a one year abboration, however, when the trend continued into 2006, Inter County then decided to file for a rate application.





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2. Refer to the Application, Exhibit H-1, page 2 of 3, Answer 10. Inter County refers to its mortgage agreements that require it to attain a Times Interest Earned Ratio ("TIER") of 1.25, based on an average of two of the three most current years.

a. Provide the TIER reported to the Rural Utilities (RUS) for calendar year 2006. Include all supporting calculations and documentation.

Response

Inter County only has preliminary numbers and has not reported any information to RUS.

Net margins (loss)	(1,184,819)
Interest on long term debt	2,447,966
TIER	0.52

b. For calendar year 2006, did Inter County attain the TIER required in its mortgage agreements? If no, provide all correspondence or description of any discussion Inter County has had with RUS regarding the mortgage agreements and TIER requirement.


Response

RUS sent a letter to Inter County dated February 24, 2006. Inter County responded on March 14, 2006. A copy of each of those letters is attached.

There has been no correspondence since that time.

INTER  COUNTY  
ENERGY COOPERATIVE

Item 2  
Page 2 of 4  
Witness: James Jacobus

A Touchstone Energy Cooperative 

March 14, 2006

Mr. Brian D. Jenkins  
Chief, Operations Branch  
Northern Regional Division  
USDA/Rural Development/Electric Programs  
1400 Independence Ave, SW  
Washington, DC 20250-0700

Dear Mr. Jenkins:

In response to your letter of February 24, we had several items that adversely affected our financial picture for the year 2005.

- Incorrect projections of Revenue & Power Cost:  
If you notice, our budget figure was \$2,676,334 less than actual revenue and our power cost budget figure was 3,804,935 less than actual power cost. This resulted in a shortfall of budgeted margins of \$1,128,601. These missed projections alone were enough to cause negative yearly margins of \$492,793.

- Unplanned operating expenses:

1. Before the demolition of our old office building, we had to spend \$73,400 for the removal of asbestos
2. Repainted some of the interior of our existing warehouse when we added on space during construction of our new headquarters facility at a cost of \$9,665
3. One of the members of our Board of Directors passed away and there were additional, unplanned expenses of \$11,000 involving the appointment of a new director to fill the unexpired term

Brian Jenkins (RUS)  
March 14, 2006  
Page 2

4. Our janitorial expenses increased \$6,500 above what we had budgeted after the move into our new headquarters facility
  5. We paid approximately \$186,000 interest on short-term borrowing from CFC in 2005 during the construction of the new headquarters facility
- Projected budget for Non-Operating Margins
    1. Although we budgeted for some interest income from investing, we basically had no cash to invest since cash flow was a problem all year
    2. After disposing of excess furniture and equipment from our old facility, we had to write-off \$357,344 as a loss on sale of assets
    3. Two new service trucks had to be purchased after they were wrecked. Although the new trucks were capitalized, we had to write off a loss of \$14,000

In budgeting for 2006, we did look more closely at our methodology used to project revenue and power cost. As a result, the proposed budget for revenue reflects an increase of 25% and a power cost increase of 30%. No other corrective measures are expected to be implemented. Based upon Inter-County's 2006 budget we project the following ratios:

TIER	1.33
OTIER	1.33
DSC	1.53

Please contact me if you have any further questions.

Sincerely,

Vickie Q. Lay  
V. P. Finance & Accounting



United States Department of Agriculture  
Rural Development

FEB 24 2006

Mr. James L. Jacobus  
President/CEO  
Inter-County Energy Cooperative  
Corporation  
P.O. Box 87  
Danville, Kentucky 40423-0087

Dear Mr. Jacobus:

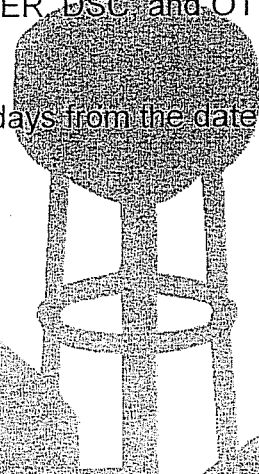
We have completed our review of Inter-County Energy Cooperative Corporation's (Inter-County), December 31, 2005, Rural Utilities Service Form 7, Financial and Statistical Report, and note that Inter-County failed to meet the minimum TIER, DSC, and OTIER of 1.25, 1.25, and 1.1 respectively.

Please let us know what areas have had an adverse effect on Inter-County's financial condition and outline the corrective measures that have been or will be implemented to correct the inadequate ratios. Include the projected TIER, DSC, and OTIER for year ending December 31, 2006.

We would appreciate receiving your response within 30 days from the date of this letter.

Sincerely,

BRIAN D. JENKINS  
Chief, Operations Branch  
Northern Regional Division  
Electric Programs



INTER-COUNTY ENERGY  
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FEB 27 2006

OFFICE OF PRESIDENT / CEO

1400 Independence Ave, S.W. • Washington, DC 20250-0700  
Web: <http://www.rurdev.usda.gov>

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3. Refer to the Application, Exhibit K, page 6 of 7. Explain the change in the margin excluding generation and transmission capital credits annually between 2001 and 2006.

Response

There were no significant occurrences to decrease the annual margins. It was a combination of the power bill increasing at a higher rate than sales, and the interest rates were also increasing during that time.



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4. Refer to the Application, Exhibit N, page 9 of 11, Item 4 - Long Term Debt. Inter County states that its long term debt consists of an item titled "Due East Kentucky, 4.2% various 5 years".

a. Provide the agreement between Inter County and East Kentucky Power Cooperative, Inc. (East Kentucky) for the long term debt.

The 5 years was reported in error. This should state, "24 months" with a clause for renewal.

b. Provide a description of the "ERC loans" due to East Kentucky.

The East Kentucky loans are to lend funds to members to finance the installation of geothermal units. The repayments from members is used to repay the loans from East Kentucky.

c. Provide the case number in which the Commission approved the long term debt with East Kentucky.

Since the term of the long term debt with East Kentucky is 24 months, Commission approval is not required.





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5. Refer to the Application, Exhibit W. For each balance sheet account listed below, describe the reason(s) for the change in the account balance between July 31, 2005 and July 31, 2006.

- a. Account No. 367, Underground conductor and devices  
Inter County has consistently installed underground for subdivision and others.
- b. Account No. 390, Structures and improvements  
Inter County constructed a new headquarters building and warehouse addition.
- c. Account 391, Office furniture  
Inter County retired all the old office furniture and replaced with new.
- d. Account No. 398, Miscellaneous equipment  
Purchased additional kitchen and breakroom equipment in new building.
- e. Account No. 107.20, Construction work in progress  
Changes in work in progress are dictated by the month in which construction has been completed, and the work order can be closed to plant.
- f. Account No. 224.03, RUS notes  
Obtained new RUS loan.
- g. Account No. 224.60, Advance payment  
Used advance to make debt service payments.
- h. Account No. 224.21, Unadvanced funds  
Advances of FFB long term debt.
- i. Account No. 224.14, Marketing loans  
Payments of principal on East Kentucky loans.



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6. Refer to the Application, Exhibit W. For each account listed below, describe the purpose of the account and what types of items are included in the account.
- a. Account No. 124, Business Development Corp  
This \$1 should not be recorded on the books.
  - b. Account No. 124.01, Industrial Development Corp  
Amounts invested in local Industrial Development Corporations to assist in bringing in new industry or expansion of existing industry.
  - c. Account No. 224.14, Marketing loans  
Advances from East Kentucky are recorded in this account. These funds are lent to Inter County's members for the purpose of installing geothermal and ETS units. These loans are set up so that when members repay Inter County, Inter County will repay the East Kentucky loans.



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7. Refer to the Application, Exhibit W, page 13 of 13. Explain the purpose of Account No. 253, Deferred pole rental. Explain why the account is deferred.

Response

Inter County uses this account to accrue for joint use pole attachments. Joint use attachments are billed to users, and as the joint use payment is received by Inter County, this account is reduced. This account is zeroed at December 31 of each year.



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8. Refer to the Application, Exhibit X. For each income statement account listed below, describe the reason(s) for the change in the account balance between July 31, 2005 and July 31, 2006.

a. Account No. 442.10, Small commercial sales

On July 1, 2004, the Commission approved a change to Inter County's tariff language for residential consumers to limit new small businesses that at one time qualified for this rate. These consumers would be placed on the small commercial rate. Existing consumers prior to July 1, 2004 could not be changed from the existing residential rate to the small commercial rate unless a change in their load characteristics made them no longer eligible for the residential rate under the old tariff language. Since July 1, 2004, new consumers that qualified for the small commercial rate are being placed on that rate.

b. Account No. 442.30, Large commercial sales

Effective July 15, 2005, this customer elected to discontinue the interruptible rate and be on the Schedule C1 rate. The customer had been notified that EKPC would actually apply the provisions of the interruptible rate and would be interrupted during the next year. As a result, the customer pays more in demand related costs. The demand the customer pays Inter County is exactly the same as Inter County pays EKPC on the power bill.

c. Account No. 442.32, Industrial sales

Wal-Mart became a new customer on June 13, 2005 and Joy Mining became a new customer on August 8, 2005.

d. Account No. 450.00, Forfeit discounts

The total revenues of Inter County increased by 18.8% over the year prior to the test year. Forfeit discounts increased by 12.9%. Does not appear to be any single reason why the forfeit discounts did not increase as much as the total revenues.



- e. Account No. 454.00, Rent from electric property

Inter County implemented a joint use pole attachment inventory during the year. This resulted in additional attachments being located and an increase in joint use attachment revenues.

- f. Account No. 935.00, Maintenance of general plant

Property taxes and liability insurance have increased by approximately \$40,000. Also included is a one time charge for asbestos abatement in the amount of \$72,654. This should have been removed for rate making purposes.

- g. Account No. 427.20, FFB interest

Inter County advanced \$3,611,000 during October 2005 and \$3,194,000 during April 2006.

- h. Account No. 427.40, CFC interest

Increase in interest rates on CFC loans. Inter county has locked in fixed rates for each of the CFC loans.



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9. Refer to the Application, Exhibit 1, pages 3 through 5 of 10.

a. Explain the nature and purpose of the Service Awards and Bonuses.

The service awards are based on length of service with Inter County. The bonus was for a retiring employee.

b. Explain how Inter County determines eligibility for Service Awards and Bonuses.

Employees are paid a Service Award, which is \$10 per year of service, on the anniversary of their 5, 10, 15, 20, 25, 25, 30, 35 years of service. The bonus was a one-time amount for a retiring employee.

c. Are the service Awards and Bonuses one and the same or are they two different incentives? If different, provide the type of incentive provided to each employee identified as receiving a Service Award and Bonus.

All employees are eligible for the Service Awards. The only bonus was to the retiring employee. Not all employees are paid a bonus, this is a case by case decision.



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10. Refer to the Application, Exhibit 1, page 7 of 10. Explain why it is reasonable to increase the compensation of the executive officers in the amounts indicated. Provide any supporting studies, documentation and workpapers.

Response

The CEO was selected by the Board of Directors effective May 1, 1999.

The CEO has subsequently selected all the other executive officers since that time. Therefore, all these positions are relatively new. The increases are a combination of the merit increases and increases based on Market Value, as defined in the Wage and Salary Policy.

The Board of Directors evaluates the CEO and sets that compensation. The CEO evaluates each of the executive officers and determines their compensation using this evaluation and the Market Value.



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11. Refer to the Application, Exhibit 1, pages 9 and 10 of 10. The reason for increase is noted as an adjustment either "to market" or to some percentage "of market." Explain how "Market" is determined. Provide any supporting studies, documentation and workpapers.

Response

Attached is Inter County's Policy No. 202, Wage and Salary Policy which defines Market Value. In addition, Inter county utilizes East Kentucky to both define job descriptions and accumulates wage and salary information to arrive at the market value for each position. Although all information is gathered from non-proprietary sources, Inter County still has this process of accumulating data outsourced.

Inter County determines the amount of raise in a two-fold process. The current annual wage is increased by the cost of living index, then compared to the market value as accumulated. Those employees above market will only get a cost of living increase. Those employees below market will get an adjustment to market, or some percentage to market, depending on job performances and evaluations.

Attached is the calculation for the individual increases and Market Research for each of the positions.

In reference to the Application, Exhibit 1 pages 9 and 10, those employees that have a percent of market designation, are lineman that have merit increases to recognize promotions from one class lineman to the next level class of lineman.

POLICY NO. 202

WAGE AND SALARY POLICY

I. OBJECTIVE

- A. To establish a wage and salary plan that will attract and retain qualified personnel and encourage their performance, growth, and development;
- B. To provide fair comparison of wages and salaries to other similar positions within organizations utilizing local, state and/or regional markets;
- C. To provide a basis for compensating employees based on performance through individual effort;
- D. To permit the Board of Directors and management to determine budget requirements more accurately;
- E. To reflect the cooperative's ability to pay; and
- F. To insure conformance, both in spirit and in letter, with established regulations or guidelines by appropriate authorities having jurisdiction over wage and salary matters.

II. RESPONSIBILITIES FOR ADMINISTRATION

- A. The Board of Directors is responsible for revision of this plan necessitated by changes in economic conditions or unforeseen events, and reserves final decisions on total wage and salary expenditures.
- B. The President/CEO is responsible for the administration of this plan and will provide information to the Board to ensure the plan is responsive to the current and long-range personnel needs of the cooperative. The President/CEO will provide for (1) monitoring compliance with the plan by all departments; (2) maintenance of accurate and current job descriptions; (3) a market analysis process; and (4) implementation and records of performance appraisals.
- C. Management staff will provide policy input and suggestions regarding the plan's operation to the President/CEO. They will implement the plan in their respective areas and will determine individual salaries within the policies of the plan in those circumstances specified elsewhere as requiring the approval of the President/CEO.



### III. POSITION EVALUATION PROCESS

All positions will be evaluated annually to establish a market value based on prevailing average market values as determined by published or special surveys. In the event that sufficient market data is unavailable, the market value will be established through the application of forced job ranking. Job ranking is only used in the absence of market value data. In these instances, positions will be ranked by comparison of comparable internal positions and their known values in the market place.

### IV. GENERAL PROVISIONS

- A. This plan shall apply only to full-time employees.
- B. Each cooperative employee (excluding the President/CEO, an employee of the Board of Directors) included in this plan is assigned to a specific position.
- C. Each salary range includes a minimum amount in which employees normally are placed during orientation and while acquiring experience needed to assume full responsibilities of the position; a maximum amount establishes the cooperative's maximum amount they intend to pay for the position, based upon market analysis.

#### Definition of the Areas of a Wage or Salary Range Are:

1. Minimum to Maximum Amount – The minimum salary range is the minimum that the cooperative intends to pay for the position evaluated in that salary range. Each employee put at, or slightly above, the minimum of the salary range will possess at least minimum qualifications for the positions. The lower part of the salary range normally will be used for the following employees: (1) the newly hired; (2) less experienced employees; and (3) individuals whose performance is below expectations and who are, therefore, considered marginal employees.
2. Market Value – Market values will be established by a comparison of wages and salaries paid for by similar organizations and positions within the labor market areas from which the cooperative generally would recruit persons to fill various positions. It is the objective of the cooperative to pay competitive wages to those individuals that fully meet the requirements of their positions and are producing acceptable performance. These individuals' annual wages will be relatively close to the market value established, based on their contribution.
3. Market Adjustments -- A market adjustment is intended to move an employee's salary to the market value within a reasonable period of time. Market adjustments are determined by the annual increase to individual market values of each position. Employees with salaries below the market value and performance levels that meet or exceed effective performance, as indicated by their latest performance review may receive a market adjustment, equal to the amount their assigned position increased in the market, not to exceed 5%. Adjustments will not be used to advance an employee's base salary above the market value.

4. Maximum Amount – The maximum amount of the wage or salary range provides flexibility for management to reward those high-performing individuals. Pay above the market value of a position will depend upon experience, education, individual performance above effective performance, specialized training, skill development, etc.
  - A. The wage and salary plan will be reviewed by October 1 of each year to determine the desirability or necessity for adjustments within the plan. This review will focus upon:
    1. Changed duties and responsibilities in positions;
    2. Changes in economic conditions which affect the ability of the cooperative to pay;
    3. Percent change in the aggregate base labor market value of all positions.
  - B. If there have been substantial changes in the duties of a position, the Department Manager will develop a new position description and submit it to the Evaluation Committee consisting of the Vice Presidents and the President/CEO. After this review, it will be placed at a more appropriate market value within the structure of the plan.

V. OPERATING PROVISIONS

- A. By September of each year, the organization will gather data on key benchmark positions. This data will include the National Compensation Survey Regional and State of Distribution Systems, sponsored by NRECA, and the Kentucky Association of Electric Cooperatives as well as other local and regional data. This data will provide the basis for any adjustment to the wage and salary plan. The President/CEO will present these findings to the Board of Directors for their review at their September meeting. Upon approval by the Board, an adjustment, if appropriate, will be made to all market values and to the individual rates for all employees with satisfactory performance. All organizational adjustments will be effective on November 1. Those individuals that are above the maximum of their range will not receive a plan adjustment until their wage is within the salary range.
- B. The salary rate at which an employee is currently paid will be the basis for subsequent adjustment for that employee.
- C. Each employee will be given full information concerning the market value and salary range of his or her position. Job description and specifications for each position is available for employee review.

- D. A new employee will, generally, be placed or compensated near the minimum salary for their new position unless previous work experience indicated that the person is capable of performing the duties of the position above its minimum requirements. A supervisor may request to hire a new employee between the minimum and market value of a position. A decision to hire above the market value will be made by the President/CEO upon recommendation of the Department Manager.
- E. An employee who is being considered for appointment, either by promotion or as a new employee, to a position for which the person has not acquired or demonstrated sufficient experience, skill or background (job specifications) to meet the minimum salary requirements of the position being considered may be paid at a rate below the minimum for that position during his/her training or probationary period for a specified time. However, all employees placed in a training grade will be reviewed at 6-month intervals. A decision must be made at that review either to place the person in the considered position at the minimum salary amount or place the employee in a lower more appropriate grade and position.
- F. Changes in Grade
  - 1. Promotions. All employees who are promoted will receive a 1 to 5 percent increase, or may be placed at the minimum of the new grade. If the increase is more than 5 percent, the employee may be placed in a training grade or the President/CEO may grant approval of more than 5 percent to move the employee to the minimum of that grade.
  - 2. Lateral Movement. Lateral movement will result in no payroll adjustment.
  - 3. Downward Movement. If, for some reasons deemed appropriate, an employee is demoted or transferred to a lower grade, their pay will be set appropriately by the President/CEO after consultation with the Department Manager.

## VI. PERFORMANCE REVIEWS

- A. A performance review is a periodic interview between an employee and supervisor for the purpose of evaluating all aspects of the responsibilities and duties of both parties in accomplishing the mutually agreed upon goals and objectives of the position, and assessing the degree of effectiveness of the employee in meeting the objectives and expectations.
- B. Performance reviews will be conducted annually for all employees.
  - 1. The Evaluation Committee, consisting of the Vice Presidents, Lebanon District Manager, and President/CEO, will approve all performance reviews and salary adjustments prior to discussions with the employees.

2. All new employees will be reviewed after six months. Such review may not necessarily result in a pay change.
- C. Employees rated as "less than satisfactory" will be counseled and notified in writing that all adjustments to compensation will be denied until performance improves to an effective level. When an employee receives a rating of this nature, the immediate supervisor and the department head must be present for the review process. An employee so rated will be automatically placed on probation for ninety (90) days with reviews scheduled at appropriate intervals. After the initial ninety- (90) day probation period, the supervisor may recommend an extension of probation in thirty- (30) day increments. Employees placed on probation are not eligible for performance increases or general adjustments during the entire ensuing review period. Employees who do not successfully complete probation may be terminated.
- D. Employees rated as "satisfactory" will be paid relatively close to the market value of their positions, but will not receive an adjustment that increases their salary above the market value.
- E. Employees rated as "more than satisfactory" may receive adjustments through either base pay or annual performance bonus programs.
- F. The cooperative will maintain an appeal process for performance appraisals. An employee can request a review of his/her performance appraisal with his department manager and/or the President/CEO and in some cases, the Evaluation Committee. The appeal process does not in any way guarantee an adjustment to the individual performance rating.
- G. It shall be understood that annual payroll adjustments are evaluated on a year-to-year basis. Economic conditions of the organization may not allow for annual wage or cost of living adjustments. Therefore, the cooperative does not guarantee annual payroll adjustments every year.

## VII. FILLING OF JOB VACANCIES

- A. All job vacancies in non-supervisory and non-management jobs, which the Cooperative decides to fill, will be posted for bid for three (3) full working days at all Cooperative office locations.
- B. The Cooperative will consider all employees who sign the job posting and may, in addition, consider applicants who are not currently employees of the Cooperative. Any applicants not currently employed by the Cooperative will be sought through the local Kentucky Bureau for Manpower Services.
- C. In filling vacancies and promoting employees, the Cooperative will consider all factors relating to the position, including education, experience, job knowledge, abilities and skill, and working conditions.

VIII. RESPONSIBILITY

The President/CEO shall be responsible for the administration of this policy.

EFFECTIVE DATE: February 15, 2002

REVISED EFFECTIVE DATE: February 15, 2002

This policy does not represent a contract between the employer and the employee or former employee and shall not be construed as such. This policy may be changed by the employer alone and without notice.

Wage Scenarios for 2007:

	Employee Name	Current			Current			Market Variance	2006/2007 Salary	+/- Mkt.	Increase Received
		Current Mkt. Value	Hourly Wage	Annual Wage	1.03 COL Applied	Market Variance	2006/2007 Salary				
1		\$ 52,936	\$ 25.72	\$ 53,497.60	\$ 55,102.53	(2,166.53)	55,102.53	3.00%	Above Mkt		
2		\$ 35,288	\$ 16.74	\$ 34,819.20	\$ 35,863.78	(575.78)	35,863.78	3.00%	Above Mkt		
3		\$ 47,480	\$ 22.88	\$ 47,590.40	\$ 49,018.11	(1,538.11)	49,018.11	3.00%	Above Mkt		
4		\$ 52,936	\$ 24.66	\$ 51,292.80	\$ 52,831.58	104.42	52,936.00	3.20%	To Market		
5		\$ 52,936	\$ 13.94	\$ 28,995.20	\$ 29,865.06	23,070.94	29,865.06	3.00%	COLA only now; 67.5% when gets CDL (should be 4th to 3rd 75%)		
6		\$ 52,936	\$ 25.72	\$ 53,497.60	\$ 55,102.53	(2,166.53)	55,102.53	3.00%	Above Mkt		
7		\$ 35,288	\$ 13.84	\$ 28,787.20	\$ 29,650.82	5,637.18	31,759.20	11%	90% of Mkt		
8		\$ 35,288	\$ 14.65	\$ 30,472.00	\$ 31,386.16	3,901.84	33,523.60	5%	95% of Mkt		
9		\$ 54,290	\$ 27.40	\$ 56,992.00	\$ 58,701.76	(4,411.76)	58,701.76	-8%	Above Mkt		
10		\$ 52,936	\$ 25.72	\$ 53,497.60	\$ 55,102.53	(2,166.53)	55,102.53	-4%	Above Mkt		
11		\$ 39,405	\$ 17.92	\$ 37,273.60	\$ 38,391.81	1,013.19	39,405.00	0%	To Market		
12		\$ 35,288	\$ 15.47	\$ 32,177.60	\$ 33,142.93	2,145.07	35,288.00	0%	To Market		
13		\$ 35,288	\$ 14.65	\$ 30,472.00	\$ 31,386.16	3,901.84	33,523.60	5%	95% of Mkt		
14		\$ 59,818	\$ 26.23	\$ 54,558.40	\$ 56,195.15	3,622.85	58,006.58	3%	half of variance--MG said 2 years to market		
15		\$ 52,936	\$ 16.65	\$ 34,632.00	\$ 35,670.96	17,265.04	39,702.00	33%	4th to 3rd--75%		
16		\$ 54,290	\$ 27.40	\$ 56,992.00	\$ 58,701.76	(4,411.76)	58,701.76	-8%	Above Mkt		
17		\$ 73,050	\$ 31.90	\$ 66,354.66	\$ 68,345.30	4,704.70	70,000.00	4%	\$70,000 per: Jim		
18		\$ 52,936	\$ 20.96	\$ 43,596.80	\$ 44,904.70	8,031.30	44,904.70	18%	Leave @ 2nd Class per: Marvin COLA Only		
19		\$ 59,818	\$ 29.08	\$ 60,486.40	\$ 62,300.99	(2,482.99)	62,300.99	-4%	Above Mkt		
20		\$ 86,103	\$ 36.06	\$ 75,000.00	\$ 77,250.00	8,853.00	80,000.00	8%	\$80,000 per: Jim		
21		\$ 34,291	\$ 16.26	\$ 33,820.80	\$ 34,835.42	(544.42)	34,835.42	-2%	Above Mkt		
22		\$ 59,818	\$ 27.87	\$ 57,969.60	\$ 59,708.69	109.31	59,818.00	0%	To Market		
23		\$ 54,290	\$ 26.03	\$ 54,142.40	\$ 55,766.67	(1,476.67)	55,766.67	-3%	Above Mkt		
24		\$ 59,998	\$ 27.07	\$ 56,307.00	\$ 57,996.21	2,001.79	59,998.00	0%	To Market		
25		\$ 52,936	\$ 23.43	\$ 48,734.40	\$ 50,196.43	2,739.57	52,936.00	0%	To Market		
26		\$ 52,936	\$ 25.72	\$ 53,497.60	\$ 55,102.53	(2,166.53)	55,102.53	-4%	Above Mkt		
27		\$ 71,300	\$ 34.88	\$ 72,548.83	\$ 74,725.29	(3,425.29)	74,725.29	-5%	Above Mkt		
28		\$ 48,740	\$ 23.43	\$ 48,740.00	\$ 50,202.20	(1,462.20)	50,202.20	-3%	Above Mkt		
29		\$ 52,936	\$ 25.72	\$ 53,497.60	\$ 55,102.53	(2,166.53)	55,102.53	-4%	Above Mkt		
30		\$ 49,732	\$ 21.65	\$ 45,032.00	\$ 46,382.96	3,349.04	49,732.00	0%	To Market		
31		\$ 52,936	\$ 20.34	\$ 42,307.20	\$ 43,576.42	9,359.58	47,642.40	11%	2nd to 1st(1st yr)--90%		
32		\$ 52,936	\$ 13.54	\$ 28,163.20	\$ 29,008.10	23,927.90	35,731.80	48%	5th to 4th--67.5%		
33		\$ 52,936	\$ 25.72	\$ 53,497.60	\$ 55,102.53	(2,166.53)	55,102.53	-4%	Above Mkt		
34		\$ 53,596	\$ 24.60	\$ 51,168.00	\$ 52,703.04	892.96	53,596.00	0%	To Market		
35		\$ 50,065	\$ 27.55	\$ 57,307.27	\$ 59,026.49	(8,961.49)	59,026.49	-15%	Above Mkt		
36		\$ 54,290	\$ 27.40	\$ 56,992.00	\$ 58,701.76	(4,411.76)	58,701.76	-8%	Above Mkt		
37		\$ 52,936	\$ 16.65	\$ 34,632.00	\$ 35,670.96	17,265.04	39,702.00	33%	4th to 3rd--75%		

38	\$	29,189	\$	13.73	\$	28,558.40	\$	29,415.15	(226.15)	29,415.15	-1%	3.00%	Above Market
39	\$	35,431	\$	19.24	\$	40,019.20	\$	41,219.78	(5,788.78)	41,219.78	-14%	3.00%	Above Market
40	\$	52,936	\$	25.72	\$	53,497.60	\$	55,102.53	(2,166.53)	55,102.53	-4%	3.00%	Above Mkt
41	\$	69,094	\$	32.78	\$	68,188.00	\$	70,233.64	(1,139.64)	70,233.64	-2%	3.00%	Above Mkt
42	\$	43,565	\$	20.20	\$	42,016.00	\$	43,276.48	288.52	43,565.00	0%	3.69%	To Market
43	\$	48,277	\$	21.51	\$	44,740.80	\$	46,083.02	2,193.98	48,277.00	0%	7.90%	To Market
44	\$	59,818	\$	27.95	\$	58,136.00	\$	59,880.08	(62.08)	59,880.08	0%	3.00%	COLA > Market
45	\$	52,936	\$	25.72	\$	53,497.60	\$	55,102.53	(2,166.53)	55,102.53	-4%	3.00%	Above Mkt
46	\$	50,360	\$	22.28	\$	46,342.40	\$	47,732.67	2,627.33	49,046.34	3%	5.83%	half of remaining
47	\$	35,288	\$	17.69	\$	36,795.20	\$	37,899.06	(2,611.06)	37,899.06	-7%	3.00%	Above Mkt
48	\$	45,254	\$	18.27	\$	38,000.00	\$	39,140.00	6,114.00	40,728.60	11%	7.18%	90% of Mkt
49	\$	39,021	\$	16.12	\$	33,529.60	\$	34,535.49	4,485.51	34,535.49	13%	3.00%	COLA Only
50	\$	42,538	\$	20.01	\$	41,620.80	\$	42,869.42	(331.42)	42,869.42	-1%	3.00%	COLA > Market
51	\$	39,292	\$	17.24	\$	35,859.20	\$	36,934.98	2,357.02	37,327.40	5%	4.09%	95% of Mkt
52	\$	52,936	\$	24.72	\$	51,417.60	\$	52,960.13	(24.13)	52,960.13	0%	3.00%	COLA > Market
53	\$	52,936	\$	25.72	\$	53,497.60	\$	55,102.53	(2,166.53)	55,102.53	-4%	3.00%	Above Mkt
54	\$	52,936	\$	24.72	\$	51,417.60	\$	52,960.13	(24.13)	52,960.13	0%	3.00%	COLA > Market
55	\$	52,936	\$	25.72	\$	53,497.60	\$	55,102.53	(2,166.53)	55,102.53	-4%	3.00%	Above Mkt
56	\$	67,594	\$	31.49	\$	65,496.00	\$	67,460.88	133.12	67,594.00	0%	3.20%	To Market
57	\$	52,936	\$	25.72	\$	53,497.60	\$	55,102.53	(2,166.53)	55,102.53	-4%	3.00%	Above Mkt
58	\$	35,288	\$	14.65	\$	30,472.00	\$	31,386.16	3,901.84	33,523.60	5%	10.01%	95% of Mkt
59	\$	35,552	\$	17.43	\$	36,254.40	\$	37,342.03	(1,790.03)	37,342.03	-5%	3.00%	Above Mkt
60	\$	47,537	\$	22.41	\$	46,612.80	\$	48,011.18	(474.18)	48,011.18	-1%	3.00%	Above Mkt
61	\$	67,594	\$	31.57	\$	65,655.29	\$	67,624.95	(30.95)	67,624.95	0%	3.00%	COLA > Market
<b>Total</b>	\$	<b>3,089,162</b>	\$		\$	<b>2,907,961.85</b>	\$	<b>2,995,200.71</b>		<b>3,047,054.96</b>	<b>1%</b>		

4.78%

3.00%









Typically requires a high school education or equivalent and less than two years experience. Frequently reports to a Maintenance Supervisor

Median \$32,000

I double weighted NRECA Distribution survey, assuming these positions are closely related to the position of Building Maintenance/Warehouse Assistant. This combined with the data representing other industries was used in calculating an average of the median

**The 2005 target for Inter-County Energy's Building Maintenance/Warehouse Assistant is \$35,552.**

**The 2006 target for Inter-County Energy's Building Maintenance/Warehouse Assistant is \$34,090.**

**This is a 4.11% decrease from 2005.**

**The salary ranges for this position based on performance:**

<b>Entry level compensation</b>	<b>\$24,957</b>
<b>Market level compensation</b>	<b>\$35,552</b>
<b>Maximum compensation</b>	<b>\$44,905</b>

**Note: Creating a range of this nature will eliminate the need for the previous step 3 position of Building Custodian/W.H. Trainee.**



**Network Administrator (job code 075500)** – Monitors the status of the network to ensure that all devices are working properly. Administers e-mail system. Evaluates network performance to maintain standards, and corrects as necessary. Installs upgrades, receives calls pertaining to network problems and either corrects the problem or directs user to the appropriate area for resolution. Provides tape backup

Median \$53,999

### ***2004 Mercer Metropolitan Wage Survey***

**LAN Administrator-Intermediate (job code 2681)** – Under general supervision, responsible for the acquisition, installation, maintenance, and usage of the organization's local area network. Manages LAN performance and maintains LAN security. Ensures that security procedures are implemented and enforced. Installs all network software. Evaluates, develops and maintains telecommunications systems. Troubleshoots LAN problems. Establishes and implements LAN policies, procedures, and standards and ensures their conformance with information systems and organization objectives. Trains users on LAN operation. Typically requires a Bachelor's degree and two to four years of experience. Frequently reports to a PC Support Manager or Senior LAN Administrator.

Median \$49,200

Also included in the analysis is EKPC's LAN/PC Support Specialist at a Market Value of \$49,700. This combined with the data representing the utility industry as well as other industries was used in calculating an average of the median.

**The 2005 target for Inter-County Energy's Computer Operator is: \$46,004**  
**The 2006 target for Inter-County Energy's Computer Operator is: \$47,480**  
**This is a 3.21% increase from 2005**

**The salary ranges for this position based on performance:**

<b>Entry level compensation</b>	<b>\$33,733</b>
<b>Market level compensation</b>	<b>\$47,480</b>
<b>Maximum compensation</b>	<b>\$62,643</b>









**Collector - Senior (job code 1423)** – Provides guidance to less experience collectors, and may supervise a segment of the collection operations. Responsible for adjusting delinquent accounts. Assists customers with terms to secure payments for the past due amount, or establishes an alternative payment plan. Attempts to locate customers who cannot be located at listed telephone number or address. Assist customer with other service problems as may be appropriate. High school education required.

Median \$43,565

**New Accounts Representative - Senior (job code 1466)** – Responsible for activities relating to the sale, opening and processing of new accounts. Interview customers to determine which products best suit their financial needs. Explains services, products and associated charges to customers. Prepares all necessary documentation to open a variety of deposit accounts. Assist customer with various problems with accounts. Provides guidance to less experience representative. High school diploma or equivalent with a least two years experience.

Median \$28,772

**The 2005 target for Inter-County Energy's Customer Service Representative is: \$35,288**

**The 2006 target for Inter-County Energy's Customer Service Representative is: \$34,269**

**This is a 2.89% decrease from 2005.**

**The salary ranges for this position based on performance:**

<b>Entry level compensation</b>	<b>\$25,137</b>
<b>Market level compensation</b>	<b>\$35,288</b>
<b>Maximum compensation</b>	<b>\$46,685</b>



**Market Research  
September 6, 2006  
Customer Services Assistant**

The following capsule descriptions from the 2006 National Compensation Survey for Rural Electric Distribution Systems was matched with Inter-County Energy Cooperative's positions of Member Services & Marketing Assistant and Operation Assistant. The data is utility specific and from Distribution Cooperatives within the state of Kentucky.

**Secretary (job code 17B)**-Provides complete secretarial duties. Functions include: preparing and analyzing reports based on recommended actions. Requires proficiency in all secretarial skills and may direct the activities of other clerical staff.

Median \$39,146

**Member Services Representative/Clerk (job code 07G)** –Assists new member-consumers in completing applications for service. Responds to questions regarding customer accounts, service transfers, and work order status.

Median \$39,811

**Manager/Director Communications (job code 14A)** – Develops and implements a coordinates and systematic informational program ensuring that director, members, employees and the general public are informed of cooperative programs, projects and activities.

25<sup>th</sup> Percentile \$45,011

**2005 Compdata Survey – Kentucky/Tennessee**

**Secretary** – Keyboards routine memos, correspondence, forms and technical and/or confidential reports. Composes reports using one or more sources. May prepare first draft. Receives and screens incoming calls, answers routine inquiries and routs calls to appropriate individual. Maintains business calendar. Schedules and confirms appointments, meetings and travel arrangements. Uses judgment in matters affecting supervisor's calendar. Performs secretarial tasks for middle management level. Knowledge of grammar, spelling and punctuation. Knowledge of office procedures and equipment. Good organizational and communication skills. High school education and ability to key 55-60 wpm.

75<sup>th</sup> percentile \$30,407

The 2005 target for Inter-County Energy's Customer Services Assistant is \$34,986.  
The 2006 target for Inter-County Energy's Customer Services Assistant is \$39,811.  
This is a 13.79% increase from 2005.

Entry level compensation	\$29,728
Market level compensation	\$42,538
Maximum compensation	\$55,210







**Market Research  
September 6, 2006  
Executive Assistant**

The following capsule descriptions from the 2006 National Compensation Survey for Rural Electric Distribution Systems. They were matched with Inter-County Energy Cooperative's position of Executive Assistant. The data from NRECA is utility specific and is from organizations within the state of Kentucky.

***NRECA Survey***

**Staff/Executive Assistant (job code 11i)** – In coordination with department heads and manager, develops and evaluates programs, policies, methods and procedures. Coordinates budgets, reports and administrative functions that need not be brought to the attention of the executive. May supervise a secretary.

Mean                      \$56,464

Also included in the analysis is EKPC's Executive Assistant at a Market Value of \$43,000. This combined with the data from NRECA was used in calculating an average of the median.

**The 2005 target for Inter-County Energy's Executive Assistant is: \$46,975  
The 2006 target for Inter-County Energy's Executive Assistant is: \$49,732  
This is a 5.87% increase from 2005.**

**The salary ranges for this position based on performance:**

<b>Entry level compensation</b>	<b>\$36,838</b>
<b>Market level compensation</b>	<b>\$49,732</b>
<b>Maximum compensation</b>	<b>\$63,827</b>







Entry level compensation	\$23.84
Market level compensation	\$25.45
Maximum compensation	\$26.21

Line Technician 2 <sup>nd</sup> class	
Entry level compensation	\$23.47
Market level compensation	\$24.20
Maximum compensation	\$25.37

Line Technician 3 <sup>rd</sup> class	
Entry level compensation	\$22.30
Market level compensation	\$23.00
Maximum compensation	\$23.69

Line Technician 4 <sup>th</sup> class	
Entry level compensation	\$14.15
Market level compensation	\$21.79
Maximum compensation	\$22.42

**Market Research  
September 6, 2006  
Maintenance Technician**

The following capsule descriptions from the 2006 National Compensation Survey for Rural Electric Distribution Systems was matched with Inter-County Energy Cooperative's position of Maintenance Technician. The data from NRECA is utility specific pertaining to distribution system with the state of Kentucky. Data from other sources was difficult to match for this position. For that reason, these capsule descriptions from the NRECA will be the only ones used in this analysis.

***NRECA Survey***

**Apparatus Technician (job code 20B)** – Repairs, maintains, and installs electrical equipment such as motors, transformers, wiring, and switches.

Median                                 \$49,920

**Meter Technician (job code 20C)** – Installs or oversees installation, tests, calibrates and repairs all types of watt-hour and demand meters, including poly-phase meters and current transformers. Keeps inventory stock of meters/parts. Makes voltage check on the system and assists with or makes load surveys. May read demand and substation meters. Also, may make service calls on high bill complaints.

Median                                 \$49,130

**Service/Service Lineman (job code 150)** – A fully qualified lineman familiar with all circuits and switching points. Also builds service drops and pole extensions. Locates sources of service interruptions and other troubles. Performs necessary construction maintenance and/or repair restoring services. Sets meters, connections and disconnections. May also collect delinquent bills.

Median                                 \$48,485

Also included in calculating an average of the median was the market value of \$52,936 for a 1<sup>st</sup> class lineman. These types of skills are part of the experience required for this position. Using that strategy I calculated the market value of the median for this position of **\$50,118**.

**The 2005 calculated target for Inter-County Energy's Maintenance Technician is: \$47,934.**

**The 2006 calculated target for Inter-County Energy's Maintenance Technician is: \$50,118.**

**This is a 4.56% increase from 2005.**

**Note: Previous practice has been to pay Maintenance Technicians the same as 1<sup>st</sup> class lineman. The target for Maintenance Technicians will be \$52,936. This is a 3.2% increase from 2005.**

**The salary ranges for this position based on performance:**

Entry level compensation	\$32,935
Market level compensation	\$52,936
Maximum compensation	\$61,153



**Market Research  
September 6, 2006  
Manager of Customer Services**

The following capsule descriptions from the 2006 National Compensation Survey for Rural Electric Distribution Systems were matched with Inter-County Energy Cooperative's position of Manager of Customer Services. The data from NRECA is utility specific. The 25 percentile was used where it was available. All of the data is from organizations within the state of Kentucky.

***NRECA Survey***

**Vice President/Manager/Director of Member Services (job code 07B)** – Manages and coordinates the activities of member education and community relations, member service, promotion of power use, and economic and community development. There are fewer than three employees in the department.

25<sup>th</sup> percentile                      \$54,560

**Director of Marketing & Economic Development (job code 07C)** – Develops plans, programs, and services that promote marketing and area economic development. Works with business, industry, and local government to promote and support industrial and commercial development. May direct support staff.

25<sup>th</sup> percentile                      \$52,635

**Vice President/Manager/Director of Member Services/Public Relations (job code 07A)** – Manages and coordinates the activities of member education and community relations, member service, promotion of power use, and economic and community development.

25<sup>th</sup> percentile                      \$72,800

Used the 25<sup>th</sup> percentile for this data because the Inter-County position is a manager level and not a VP level.

**The 2005 target for Inter-County Energy's Manager of Customer Services is \$56,307. The 2006 target for Inter-County Energy's Manager of Customer Services is \$59,998. This is a 6.55% increase from 2005.**

The salary ranges for this position based on performance:

<b>Entry level compensation</b>	<b>\$41,854</b>
<b>Market level compensation</b>	<b>\$59,998</b>
<b>Maximum compensation</b>	<b>\$77,703</b>



**Senior Collector (job code 1423)** – Provides guidance to less experience collectors, and may supervise a segment of the collection operations. Responsible for adjusting delinquent accounts. Assists customers with terms to secure payments for the past due amount, or establishes an alternative payment plan. Attempts to locate customers who cannot be located at listed telephone number or address. Assist customer with other service problems as may be appropriate. High school education required.

Median \$43,565

**New Accounts Representative - Senior (job code 1466)** – Responsible for activities relating to the sale, opening and processing of new accounts. Interview customers to determine which products best suit their financial needs. Explains services, products and associated charges to customers. Prepares all necessary documentation to open a variety of deposit accounts. Assist customer with various problems with accounts. Provides guidance to less experience representative. High school diploma or equivalent with a least two years experience.

Median \$28,772

I double weighted NRECA Distribution survey, assuming these positions are closely related to the position of Customer Service Representative. This combined with the data representing other industries was used in calculating an average of the median

**The 2005 target for Inter-County Energy's Lebanon Office Coordinator is: \$35,431**

**The 2006 target for Inter-County Energy's Lebanon Office Coordinator is: \$35,235**

**This is a .56% decrease from 2005.**

**The salary ranges for this position based on performance:**

<b>Entry level compensation</b>	<b>\$25,241</b>
<b>Market level compensation</b>	<b>\$35,431</b>
<b>Maximum compensation</b>	<b>\$46,877</b>





**Market Research  
September 6, 2006  
Operation Assistant**

The following capsule descriptions from the 2006 National Compensation Survey for Rural Electric Distribution Systems was matched with Inter-County Energy Cooperative's positions of Member Services & Marketing Assistant and Operation Assistant. The data is utility specific and from Distribution Cooperatives within the state of Kentucky.

***NRECA Survey***

**Secretary (job code 17B)** – Provides complete secretarial duties. Functions include: preparing and analyzing reports based on recommended actions. Requires proficiency in all secretarial skills and may direct the activities of other clerical staff.

3<sup>rd</sup> Quartile (75<sup>th</sup> percentile)      \$41,662

***2005 Compdata Survey Kentucky/Tennessee***

**Secretary (job code 0265)** – Keyboards routine memos, correspondence, forms and technical and/or confidential reports. Composes reports using one or more sources. May prepare first draft. Receives and screens incoming calls, answers routine inquiries and routes calls to appropriate individual. Maintains business calendar. Schedules and confirms appointments, meetings and travel arrangements. Uses judgment in matters affecting supervisor's calendar. Performs secretarial tasks for middle management level. Knowledge of grammar, spelling and punctuation. Knowledge of office procedures and equipment. Good organizational and communication skills. High school education and ability to key 55-60 wpm.

75<sup>th</sup> percentile      \$30,407

Also included in the analysis is EKPC's Senior Administrative Assistant at a Market Value of \$35,300. This combined with data representing the utility industry was used in calculating average of the median.

**The 2005 target for Inter-County Energy's Operation Assistant is \$34,513. The 2006 target for Inter-County Energy's Operation Assistant is \$35,790. This is a 3.7% increase from 2005.**

<b>Entry level compensation</b>	<b>\$27,888</b>
<b>Market level compensation</b>	<b>\$39,292</b>
<b>Maximum compensation</b>	<b>\$51,793</b>





shipments, handling and disposition of material and keeping warehouse inventory current. Inspects physical condition of warehouse and equipment and prepares work order for repairs and requisitions for replacement of equipment. Confers with department heads to ensure coordination of warehouse activities with other activities such as production, sales, record control and purchasing. High School education required with additional experience preferred.

Median \$64,146

### ***2005 Mercer Metropolitan Area Wage Survey***

**Buyer/Intermediate (job code 610-572.350)** – Assists Purchasing Manager in purchasing supplies, materials and equipment for the company. Reviews requisitions, confers with vendors, and determines method of procurement. Constructs invitations to bid, examines bids and makes recommendations or negotiates and awards contracts to bidders. Develops and maintains favorable relations with supply sources. Expedites and settles claims and returns defective materials. Requires a bachelor's degree and three to four years of experience in purchasing.

Median \$44,400

**Warehouse Supervisor (job code 610.616.240)** – Responsible for directing and controlling warehouse activities to ensure the efficient and economical utilization of facilities for storing and distributing materials and goods inventories. Supervises two or more employees in the prompt delivery of merchandise for the kind and in the amount ordered. Requires a high school education and three to five years of experience in warehouse operations.

Median \$41,500

Also included in the analysis are EKPC's Senior Buyer at a Market Value of \$63,700 and Warehouse Coordinator at a Market Value of \$55,300. This combined with the data representing the utility industry as well as other industries was used in calculating an average of the median.

**The 2005 target for Inter-County Energy's Coordinator Purchase/Warehouse is: \$51,163.**

**The 2006 target for Inter-County Energy's Coordinator Purchase/Warehouse is: \$53,596**

**This is a 4.75% increase from 2005.**

**The salary ranges for this position based on performance:**

<b>Entry level compensation</b>	<b>\$37,403</b>
<b>Market level compensation</b>	<b>\$53,596</b>
<b>Maximum compensation</b>	<b>\$69,465</b>

**Market Research  
September 6, 2006  
Service Records Supervisor**

The position of Service Records Supervisor is specific to the Rural Electric Distributions Systems. The NRECA survey did not include any position that could be matched for Inter-County Energy. There were also no appropriate matches from any other surveys.

Looking at the pay rates for the present compensation system at Inter County, there is a 35% spread between this position and the Service Records Clerk = \$29,189 . Using that strategy I used the new pay rates for the Service Records Clerk to establish a market value for the Service Records Supervisor.

**The 2005 target for the Service Records Supervisor is: \$39,232**  
**The 2005 target for the Service Records Supervisor is: \$39,405**  
**This is a .44% increase from 2005.**

<b>Entry level compensation</b>	<b>\$27,604</b>
<b>Market level compensation</b>	<b>\$39,405</b>
<b>Maximum compensation</b>	<b>\$51,221</b>

**Market Research  
September 6, 2006  
Service Records Clerk**

The following capsule descriptions from the 2006 National Compensation Survey for Rural Electric Distribution Systems, 2006 Mercer Metropolitan Wage Survey, and Compensation Data for Kentucky/Tennessee were matched with Inter-County Energy Cooperative's positions of Service Records Clerk. The data from NRECA is utility specific; the data from the other two sources is more general pertaining to many different industries. All of the data is from organizations within the state of Kentucky.

***NRECA Survey***

**Membership Clerk (job code 17V)** – Keeps records of all service orders. Maintains member-consumer records including service, location, deposits, and membership fees.

Median                               \$33,446

**Data Entry Clerk (job code 17W)** – Enters, verifies, and corrects information on computer terminal. May edit, interpret, and code data. Works under general Supervision.

Median                               \$26,291

**General Clerk (job code 17X)** – Performs keyboard functions, maintains files, keeps simple records, and performs other clerical tasks. Entry-level position.

Median                               \$33,155

**Dispatcher/Radio Operator (job code 20W)** – Maintains radio communication with field personnel regarding routine activities as well as emergency power outages during both day and evening shifts. May work rotating shifts.

Median                               \$36,566

***Mercer Metropolitan Wage Survey***

**Data Entry Operator – Associate (job code 220-112-430)** Louisville area – Under direct supervision, operates a data entry device to perform a variety of data entry, verification, and related clerical duties. This is an entry-level position. Typically requires little or no experience. Frequently reports to a senior or supervisor.

Median                               \$21,800

**General Clerk – Associate (job code 220-108-433)** Louisville area – Under direct supervision, performs clerical support for functional groups such as copying, distributing mail, performing simple calculations, and maintaining records and files following standard procedures. Typically requires a high school education and less than two years experience.

Median \$21,500

***Compensation Data for Kentucky/Tennessee Survey***

**Clerk (job code 0205)** – performs a variety of routine clerical functions including sorting, matching and filing according to specific instructions. Maintains various records and logs. Utilizes computer, calculator, and other standard office equipment to record, store and retrieve information. Possesses ability to read, write and follow specific instructions in both written and verbal form. High school education required.

Median \$24,411

**Data Entry Operator (job code 0718)** – Operates computer keyboard to input alphanumeric data into computer. Works from standard documents coding data from instructions. Refers problems and missing information to others. Work is performed following specific detailed instructions, as well as very repetitive and routine tasks. High school education required with ability to operate computer keyboard.

Median \$24,711

Since this position assumes many different responsibilities, such as, filling service orders, dispatching men and equipment, meter test scheduling, keying work orders, entering data and pulling material it was very difficult to find an exact match in the market place. Utilizing the data described above from several different sources will hopefully capture the essence of this position. Assuming the emphasis of this position is that of an individual who's main responsibility are the records that pertain to transformers, meters, outages, disconnect, reconnects and dispatching. I double weighted the data for dispatcher and membership clerk, calculating an average of the median for what utilities and other industries in the state of Kentucky are paying for these types of services.

**The 2005 target for Inter-County Energy's Service Records Clerk is: \$29,061.  
The 2006 target for Inter-County Energy's Service Records Clerk is: \$29,189.  
This is a .44% increase from 2005.**

**The salary ranges for this position based on performance:**

<b>Entry level compensation</b>	<b>\$20,949</b>
<b>Market level compensation</b>	<b>\$29,189</b>
<b>Maximum compensation</b>	<b>\$38,793</b>







- Prepares and files necessary government and associated business reports, financial reports and operating statements. Maintains records.
- Ensures that customer billing inquiries and complaints are resolved effectively.

Median \$73,570

**Compdata Surveys 2006 - Kentucky/Tennessee**

**Public Relations Manager (job code 0879)** – Develops and oversees programs designed to create and maintain a favorable public image for the company. Oversees the writing, preparation and/or delivery of information about the company. May write press releases, speeches or other material as needed. Bachelor’s degree and at least five years of public relations or related experience.

75<sup>th</sup> percentile \$63,802

**Dietrich Support Services**

**Director of Marketing** – Responsible for developing, implementing, and maintaining a corporate-marketing program using market analysis and research. Develops long-range marketing strategy in accordance with established corporate goals for products or services. Will develop market-study data for targeted market areas to aid operating divisions or product sectors to achieve maximum market exposure. Prepares the Corporate Marketing Plan with an annual budget and directs the implementation of this plan. May direct the advertising and publicity efforts within the company. Provides direction and control to all assigned staff. This is a senior-level management position normally reporting to the President or Executive Vice President.

Median \$107,506

This combined with the data representing other industries was used in calculating an average of the median.

**The 2005 target for Inter-County Energy’s Vice President of Customer Services is: \$66,055**

**The 2006 target for Inter-County Energy’s Vice President of Customer Services is: \$73,050**

**This is a 10.59% increase from 2005.**

**The salary ranges for this position based on performance:**

<b>Entry level compensation</b>	<b>\$51,152</b>
<b>Market level compensation</b>	<b>\$73,050</b>
<b>Maximum compensation</b>	<b>\$94,989</b>



operation of state-of-the-art systems used for generation, transmission and distribution of energy consumption. Requires a bachelor's degree in electrical engineering and eight years of related work experience.

Median \$86,773

***2006 Mercer Metropolitan Wage Survey***

**Engineer Manager (job code 510.000.220)** – Manages all activities of engineering department to design, manufacture, and test electronic components, products, and systems. Directs department activities, through subordinates, to design new products, modify existing designs, improve production techniques, and develop test procedures. Analyzes technology trends, human resource needs, and market demand to plan projects. Confers with management, production, and marketing staff to determine engineering feasibility cost effectiveness, and customer demand for new and existing products. Directs personnel activities of department, such as recruitment, hiring, performance evaluations, and salary adjustments. May direct field testing of products and system performed by field staff.

Median \$97,700

I double weighted the data from the NRECA Distribution survey, assuming these positions are closely related to the position of Vice President of Engineering/Operations. This combined with the data representing other industries was used in calculating an average of the median.

**The 2005 target for Inter-County Energy's Vice President of Engineering/Operation is: \$84,009**

**The 2006 target for Inter-County Energy's Vice President of Engineering/Operation is: \$86,103**

**This is a 2.49% increase from 2005.**

**The salary ranges for this position based on performance:**

<b>Entry level compensation</b>	<b>\$60,174</b>
<b>Market level compensation</b>	<b>\$86,103</b>
<b>Maximum compensation</b>	<b>\$111,927</b>



preparation and accuracy of balance sheets, profit-and-loss statements. Compiles and analyzes data and prepares forecasts, cash flow data and other reports. Reconciles assets and liabilities, may provide asset valuations, participates in budget planning process, resolves significant AR/AP issues. May coordinate external audits. Bachelor's degree in accounting or finance and seven years of progressive accounting experience.

Median \$64,620

**The 2005 target for Inter-County Vice President of Finance & Accounting is: \$70,304.**

**The 2006 target for Inter-County Vice President of Finance & Accounting is: \$71,300.**

**This is a 1.42% increase from 2005.**

**The salary ranges for this position based on performance:**

<b>Entry level compensation</b>	<b>\$57,045</b>
<b>Market level compensation</b>	<b>\$71,300</b>
<b>Maximum compensation</b>	<b>\$85,567</b>



Inter County Energy  
Case No. 2006-00415  
Second Data Request of Commission Staff

12. It does not appear that Inter County has made any adjustment for employee benefits expense. Does Inter County anticipate a change in its employee benefit expense? Provide a schedule of the employee benefits that Inter County currently provides to its employees.

Response

Inter County has made an adjustment for its payroll taxes, retirement and security and postretirement benefits as reflected in Exhibit 2, Exhibit 6 and Exhibit 7 to the Application.

A list of employee benefits is included in the Application, lines 40 to 50, of Exhibit T, page 1 of 1.





Inter County Energy  
Case No. 2006-00415  
Second Data Request of Commission Staff

13. Refer to the Application, Exhibit 3. Was any consideration given to performing a depreciation study in conjunction with this rate case? Explain the response.

Response

Inter County did give consideration to having a depreciation study performed. Among the items reviewed were the Depreciation Guideline Curve status and the reserve ratio. Inter County's current status on the Depreciation Guideline Curve puts it right on the Minimum Curve line. The reserve ratio has continually been increasing since 2001.

Based on the above, Inter County did not believe that a depreciation study was necessary at this time. Inter County reviews these ratios on a periodic basis, and if these change in the future, consideration will be given to have a depreciation study performed.



Inter County Energy  
Case No. 2006-00415  
Second Data Request of Commission Staff

14. Refer to the Application, Exhibit 5. Provide an update of the current interest rates through January 31, 2007.

Response

See attached.

Inter County Energy  
Case No. 2006-00415  
Schedule of Outstanding Long-Term Debt  
as of January 31, 2007

Exhibit 5  
page 2 of 4  
Format 8a  
Schedule 2

<u>Type of Debt Issued</u> (a)	<u>Date of Issue</u> (b)	<u>Date of Maturity</u> (c)	<u>Outstanding Amount</u> (d)	<u>Cost Rate to Maturity</u> (g)	<u>Annualized Cost Col (d)x(g)</u> (j)	<u>Test Year Interest Cost</u> (k)
<b>RUS loans</b>						
0B210	Jan-72	Jan-2007	4,561	2.00%	91	205
0B220	Jun-72	Jun-2007	4,561	2.00%	91	462
1B230	Sep-73	Sep-2008	68,556	5.00%	3,428	4,809
1B240	Jul-74	Jul-2009	57,966	5.00%	2,898	3,696
1B250	Mar-75	Mar-2010	73,741	5.00%	3,687	4,451
1B260	Jan-76	Jan-2011	138,616	5.00%	6,931	8,081
1B270	Sep-76	Sep-2011	161,060	5.00%	8,053	9,157
1B280	Aug-77	Jul-2012	185,346	5.00%	9,267	10,343
1B290	May-78	May-2013	207,321	5.00%	10,366	11,402
1B300	May-79	May-2014	853,749	5.00%	42,687	46,270
1B310	Jan-82	Jan-2017	793,798	5.00%	39,690	41,954
1B320	Mar-85	Mar-2020	803,638	5.00%	40,182	41,695
1B330	May-88	May-2023	1,415,324	5.00%	70,766	72,727
1B340	Aug-91	Aug-2026	2,140,334	5.00%	107,017	109,267
1B350	Nov-93	Nov-2028	2,753,008	5.00%	137,650	140,080
1B360	Mar-98	Feb-2033	2,387,443	5.125%	122,356	123,892
1B365	Mar-98	Feb-2033	2,244,192	3.370%	75,629	76,946
1A370	Jun-2005	May-2040	3,000,000	4.700%	141,000	39,455
	Advance payment		(49,119)			
			<u>17,244,095</u>		<u>821,791</u>	<u>744,893</u>
<b>FFB loans</b>						
H0010	Sep-2005	Sep-2040	23,090,067	4.903%	1,132,106	832,361
F0055	Oct-2005	Oct-2040	3,172,408	4.903%	155,543	165,974
			<u>26,262,475</u>		<u>1,287,649</u>	<u>998,335</u>
<b>CFC loans</b>						
9001	Aug-74	Jul-2009	71,921	7.00%	5,034	6,976
9008	Mar-75	Mar-2010	38,029	5.85%	2,225	2,628
9010	Dec-75	Dec-2010	69,851	5.90%	4,121	4,696
9012	Sep-76	Sep-2011	79,599	5.95%	4,736	5,263
9014	Jun-77	Jun-2012	93,467	6.00%	5,608	6,115
9016	Mar-78	Mar-2013	108,025	6.00%	6,482	6,967
9017	Mar-79	Mar-2014	422,767	6.00%	25,366	26,869
9021	Apr-81	Apr-2016	389,297	6.05%	23,552	24,315
9022	Mar-85	Mar-2020	401,331	6.20%	24,883	25,256
9023	Mar-88	Mar-2023	615,905	6.35%	39,110	39,317
9024	Jun-91	Jun-2026	942,205	6.45%	60,772	60,676
9025	Sep-93	Aug-2028	1,227,117	6.45%	79,149	78,763
9026	Mar-98	Feb-2033	2,089,064	6.50%	135,789	134,480
			<u>6,548,578</u>		<u>416,827</u>	<u>422,323</u>
Total long term debt and annualized cost			<u>50,055,148</u>		<u>2,526,268</u>	<u>2,165,550</u>

Annualized cost rate [Total Col. (j) / Total Col. (d)] 5.05%  
Actual test year cost rate [Total Col (k) / Total Reported in Col (d)] 4.33%



Inter County Energy  
Case No. 2006-00415  
Second Data Request of Commission Staff

15. Refer to the Application, Exhibit 9, page 1 of 7. Inter County states that expenses for the new loan services were not removed since legal services are required each time it applies for a loan. Does Inter County incur expenses for new loan services annually? Provide a schedule of the number of loans and the associated expenses incurred for the past 3 years.

Response

The amount of legal expenses incurred in each of the previous 4 years is:

2005	1,600.00
2004	0.00
2003	0.00
2002	5,951.23

Inter County incurs these expenses every time a new loan obtained. Inter County files for a loan application every 3 to 4 years.





Inter County Energy  
Case No. 2006-00415  
Second Data Request of Commission Staff

16. Refer to the Application, Exhibit 9, pages 1 through 4 of 7. Pertaining to Inter County's legal expenses,

a. Provide a copy of the written agreement with the new law firm. If no written agreement exists, explain why Inter County does not have on.

Copy of the agreement is attached.

b. Explain in detail why expenses for legal seminars, special board meetings, and board meals for the attorney should be included for rate-making purposes, given the attorney is compensated by a retainer and normal hourly billed rate.

First, the retainer is for the attorney to attend the monthly board meetings. The attorney is present for each board meeting. The retainer is for this service. The attorney bills for additional work performed at the request of Inter County. Several times during the month calls are made to the attorney where no bills are sent to Inter County. The amounts billed in addition to the monthly retainer do not include attending legal seminars, special board meetings or other cooperative business. Inter County has a meal catered for its monthly board meetings with all Directors, the attorney and executive officers of Inter County participating in this meal. Since the meal is catered, all those that attend are allocated a portion of that meal. Inter County feels it is more efficient to have the meal catered, then if there is additional business, all parties will still be present in Inter County's office to continue the board meeting.

c. For the following transactions, explain if the transaction is recurring and why it should be included for rate-making purposes.

(1) Page 3 of 7, line 45 - Legal fees for ETS loan

As long as there are ETS loans, there will be issues that arise. This is expected to be ongoing.

(2) Page 3 of 7, line 58 - Labor matters for employee issues

As long as there are employees, there will be labor issues that arise. Inter County uses labor attorneys to remain in compliant with labor laws and potential issues. This helps keep insurance and other costs at their lowest level possible.

(3) Page 3 of 7, line 60 - By-Law review, election committee

This was to update the new attorney on matters related to the By-Laws and their effect on elections. Not a recurring transaction.

(4) Page 4 of 7, line 69 - Labor matters for employee issues

Same as (2) above of this response.

## INTER-COUNTY ENERGY COOPERATIVE COOPERATIVE ATTORNEY ENGAGEMENT AGREEMENT

Inter-County Energy Cooperative Corporation (“the Cooperative”) and James William Barnett of Sheehan Barnett Hayes Dean & Pennington PSC (“Attorney”) enter this Attorney Engagement Agreement (“Agreement”) on this 11<sup>th</sup> day of November, 2005, with the Agreement being effective January 1, 2006.

1. General Agreement. Pursuant to this Agreement, Attorney shall provide legal services to the Cooperative, and the Cooperative shall pay Attorney. In entering this Agreement, the Cooperative and Attorney have formed or continue an attorney-client relationship for the provision of the legal services stated in this Agreement.
2. Policy. Attorney and the Cooperative, respectively, shall comply with applicable provisions of Inter-County Energy Cooperative Policy No. 410, entitled “Services and Compensation of Legal Counsel” (“Policy”), which Policy is incorporated in this Agreement by reference.
3. General or Special Counsel. As described in the Policy, and as indicated below, Attorney shall provide legal services to the Cooperative as:
  - General Counsel and, as requested by the Cooperative, provide the Cooperative general legal services and any special legal services determined by the Board of Directors of the Cooperative (“Board”).
  - Assist any Special Counsel as requested by the Board or Management of the Cooperative.
4. General Retainer. If Attorney provides legal services to the Cooperative as General Counsel, then the Cooperative shall pay the Attorney six-hundred dollars (\$600.00) per month (“General Retainer”) for attending, and drafting of, all regular meetings of the Board and for providing the following general legal services to:
  - Sign Prepared By on mortgages and release of mortgages, capital credit questions, etc. and other minimal questions, which can ordinarily be answered without research.
5. Hourly Fee. Unless otherwise provided in this Agreement, the Cooperative shall pay Attorney, or another attorney or paraprofessional associated with Attorney in a law firm, the following fees for each hour spent providing legal services to the Cooperative (“Hourly Fees”):
  - One-hundred fifty dollars (\$150.00) per hour spent by William M. Barnett or designated member of the firm.

With the Cooperative’s prior written consent, Attorney may modify the Hourly Fees.

6. Non-Legal Services. The Cooperative shall pay Attorney for non-legal, non-overhead goods or services provided to, by, or through Attorney as part of, and specifically for, Attorney's provision of legal services to the Cooperative ("Non-Legal Services"). Non-Legal Services include, but are not limited to: (a) extensive photocopying; (b) computerized legal research; (c) audio or video recording or transcription; (d) travel, including transportation, lodging, and meals; (e) long distance telephone; (f) document transmission or delivery services, including messenger, facsimile, and mail; (g) court costs; and (h) filing fees.
  
7. Third Party Services. The Cooperative shall pay for goods or services provided by a third party as part of, and specifically for, Attorney's provision of legal services to the Cooperative ("Third Party Services"). As determined by Attorney, the Cooperative shall: (a) pay the third party for a Third Party Service or (b) reimburse Attorney for Attorney's payment to the third party for a Third Party Service. Third Party Services reasonably anticipated to cost more than one-thousand dollars (\$1,000.00) may not be provided without the Cooperative's prior consent.
  
8. Invoice. Each month, Attorney shall send the Cooperative an invoice: (a) describing legal services provided by Attorney; (b) describing Non-Legal Services provided to, by, or through Attorney; (c) describing Third Party Services for which Attorney has paid; and (d) stating any General Retainer, Special Retainer, Fixed Fee, Hourly Fee, Non-Legal Service, or Third Party Service amount owed by the Cooperative ("Invoice Amount").
  
9. Payment. After the Cooperative receives an invoice from Attorney, and unless the Cooperative disputes an Invoice Amount, the Cooperative shall pay Attorney within thirty (30) days.
  
10. Disputed Amounts. If the Cooperative disputes all or part of an Invoice Amount, then the Cooperative shall notify Attorney in writing within thirty (30) days of receiving the invoice. If Attorney and the Cooperative do not resolve the dispute within thirty (30) days of Attorney's receipt of the Cooperative's notice of dispute, then Attorney and the Cooperative shall submit the dispute to binding arbitration administered by the state bar, or by another organization agreed upon by Attorney and the Cooperative. These disputed amount terms of this Agreement survive termination of the Agreement.
  
11. Publications, Memberships, Meetings, and Seminars. If Attorney provides legal services to the Cooperative as General Counsel, then, as indicated below, the Cooperative shall:
  - On Attorney's behalf, pay for annual subscriptions to the *Legal Reporting Service* publication by the National Rural Electric Cooperative Association ("NRECA") and *Currin Energy Page*.
  - Pay for Attorney to become and remain a member of the Electric Cooperative Bar Association ("ECBA").
  - Pay for Attorney to become and remain a member of any association of attorneys representing electric cooperatives located within the state.

If Attorney provides legal services to the Cooperative as General Counsel, then, as indicated below and in the same manner as the Cooperative pays and reimburses members of the Board, the Cooperative shall pay and reimburse Attorney to attend:

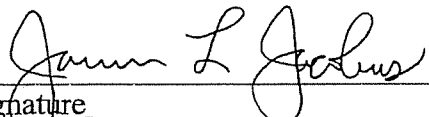
- NRECA's annual member meeting.
- NRECA's annual legal seminar.
- NRECA's annual workplace law seminar.
- ECBA's annual member meeting (if Counsel attends NRECA Annual Meeting).
- Any annual meeting of any association of electric cooperatives located within the state.
- Any annual legal seminar for attorneys representing electric cooperatives located within the state.

12. Termination of Agreement. As provided in this Agreement or the Policy, the Cooperative or Attorney shall or may terminate this Agreement. If Attorney provides legal services to the Cooperative as Special Counsel, then this Agreement terminates upon completion of the special legal services.

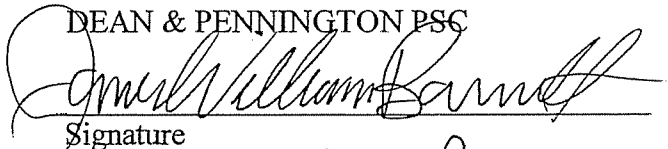
13. Termination Payments and Refunds. Upon termination of this Agreement, and pursuant to the terms of this Agreement governing payment and disputed amounts: (a) the Cooperative shall pay Attorney all undisputed General Retainer, Special Retainer, Hourly Fee, Non-Legal Service, and Third Party Service amounts for services provided prior to termination and (b) the Cooperative shall pay Attorney the undisputed, proportionate, and reasonable part of any Fixed Fee amount for services provided prior to termination. Within thirty (30) days of termination of this Agreement, and pursuant to the terms of this Agreement governing disputed amounts: (a) Attorney shall refund to the Cooperative any undisputed General Retainer, Special Retainer, Non-Legal Service, and Third Party Service amounts representing payment for services not provided prior to termination and (b) Attorney shall refund to the Cooperative the undisputed, proportionate, and reasonable part of any Fixed Fee amount representing payment for services not provided prior to termination.

14. Governing Law. This Agreement will be governed by, and interpreted under, the law of the State of Kentucky.

JAMES L. JACOBUS  
INTER-COUNTY ENERGY COOPERATIVE

  
 \_\_\_\_\_  
 Signature  
 JAMES L. JACOBUS  
 \_\_\_\_\_  
 Printed Name  
 PRESIDENT/CEO  
 \_\_\_\_\_  
 Title  
 11/11/05  
 \_\_\_\_\_  
 Date

JAMES WILLIAM BARNETT  
SHEEHAN BARNETT HAYES  
DEAN & PENNINGTON PSC

  
 \_\_\_\_\_  
 Signature  
 JAMES WILLIAM BARNETT  
 \_\_\_\_\_  
 Printed Name  
 ATTORNEY  
 \_\_\_\_\_  
 Title  
 November 11, 2005  
 \_\_\_\_\_  
 Date



Inter County Energy  
Case No. 2006-00415  
Second Data Request of Commission Staff

17. Refer to the Application, Exhibit 9, page 1 of 7. Inter County states it employed East Kentucky's Internal Audit staff to conduct various internal audit services.

a. Explain in detail what services are included in the internal audit services provided by East Kentucky.

Inter County has established an Audit Committee. This committee meets at the beginning of each year and recommended that one internal audit process per quarter be performed. The committee decides on the four audit processes, then contacts East Kentucky to utilize their internal audit staff to perform the audits.

b. Provide a written agreement with East Kentucky. If no written agreement exists, explain why Inter County does not have one.

Inter County does not have a written agreement, however, there is an understanding that East Kentucky will provide this service on an as needed basis. East Kentucky will charge \$50 per hour, for all hours in excess of 40 per year, plus expenses.

c. Provide a copy of the audit report(s) provided to Inter County by East Kentucky

A copy of each is attached.

d. Was the test year the first time Inter County employed the internal audit services of East Kentucky? Explain the response.

The Audit Committee was formed in 2004, with its initial meeting on February 11, 2005. At that time quarterly internal audit processes identified. The first internal audit report was completed March 18, 2005.

APR 20 2005

OFFICE OF PRESIDENT / CEO

March 18, 2005

Audit Committee  
Inter-County Energy Cooperative  
P.O. Box 87  
Danville, KY 40423-0087

Subject: Internal Audit of Marketing Rebate Program

**Introduction**

The rebate program is one of the cornerstones of Inter-County Energy Cooperative's residential and commercial marketing efforts. To encourage members to purchase various end-use technologies, the Cooperative will pay an incentive. In 2004, 124 incentives were paid totaling \$39,178.04, as shown in the table below. Besides marketing rebates, Inter-County uses resources for image, safety and other advertising, sponsorships, and promotions.

Program	No.	Amount
Geothermal HVAC	9	\$ 4,100.00
Air Source Heat Pump	50	15,000.00
Tune Up	10	2,700.00
Water Heater	9	1,700.00
Electric Thermal Storage (ETS)	4	6,000.00
Touchstone Energy Home	3	2,100.00
Button Up	39	7,578.04
<b>Total</b>	<b>124</b>	<b>\$39,178.04</b>

In 2004, East Kentucky Power Cooperative ("EKPC"), through its Partners Plus Program, started reimbursing its member systems 50 percent of such expenses, up to a specified amount. For Inter-County last year, this dollar limit was \$131,713.00. A breakdown of these costs is shown in the table below.

Expense	Paid by Inter-County	Reimbursed by EKPC
Ad/Sponsor/Promotion	\$224,346.75	\$112,123.98
Marketing Rebates	39,178.04	19,589.02
<b>Total</b>	<b>\$263,524.79</b>	<b>\$131,713.00</b>



### Scope and Objective of the Report

The scope of this audit, authorized by the Audit Committee, encompassed an examination and evaluation of the adequacy and effectiveness of Inter-County Energy Cooperative's system of internal control over both components of the Partners Plus Program—incentive payments and advertising, sponsorships, and promotions. The period covered was 2004.

The objective of the report is to determine whether payments are being processed in accordance with sound business practices.

### Method of Obtaining Data

To accomplish the above objective, a sample of 28 payments totaling \$25,079.14, as shown in the table below, was selected from the Accounts Payable Distribution Posting for testing. The sample was spread throughout the year and included seven of the eight rebate programs. I also reviewed five reimbursements from EKPC totaling \$69,138.42.

Expense	No.	Amount
Marketing Rebates	16	\$13,700.42
Ad/Sponsor/Promotion	12	11,378.72
Total	28	\$25,079.16

Tests included an examination of:

- Check copies
- Field Worksheets for the various incentive programs
- Invoices for advertising, sponsorships, and promotions

Rebate amounts were compared to those listed in the **Marketing and Energy Programs** information sheet. Amounts for 2005 are shown in the table below.

Program	Incentive
Touchstone Energy Home	\$1,000 (geothermal), \$700 (air-to-air)
Touchstone Energy Manufactured Home	\$300
Geothermal HVAC	\$600
Air Source Heat Pump	\$300
Water Heater	\$100 per qualifying water heater
Electric Thermal Storage	\$100 per installed kW capacity
Button Up	\$25 per 1,000 BTU (maximum \$500)
Tune Up	Varies

### Findings and Conclusions

Based on my review of 28 payments, I conclude they are being processed in accordance with sound business practices. Specific findings were as follows:

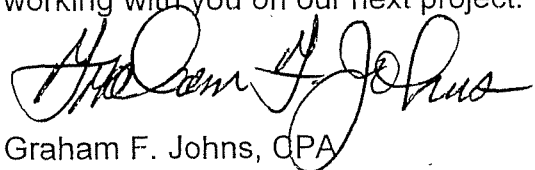
- Check numbers, amounts, dates, and payees on check copies agreed with the same information in the Accounts Payable Distribution Posting.
- Field Worksheets (for each program) supported incentive payments. Worksheets include the payee, service/location, dwelling, and other program-specific information, such as heat loss and gain, model number, serial number, and unit size.
- Rebate amounts were in accordance with the Marketing and Energy Programs information sheet.
- Detailed invoices properly supported payments for advertising, sponsorships, and promotions.
- All payments were properly approved.
- General Ledger account distributions were proper, as follows:  
908.10 Customer Assistance Expense—Marketing  
909.00 Informational and Institutional Advertising

### Field Worksheets

One of the questions raised at the outset of this audit was: Did the member actually purchase the system? This question is difficult to answer based on the information available. Certainly, we must rely on the integrity of the Co-op Representative, who is responsible for the home site visit and completing system information on the Field Worksheet, such as manufacturer, model number, serial number, and size (tons, gallons, etc.).

In 1993, a similar internal audit was done at East Kentucky Power Cooperative. Field Worksheets included lines for both the Co-op Representative and Dealer/Installer Representative to sign attesting to all information. This would have been a good internal control, except the dealer/installer information was often either omitted or completed by the Co-op Representative, which defeats the purpose. Adding a line for the homeowner to sign attesting to the accuracy of the dealer/installer information might help. Still, the best evidence would be the dealer's invoice and a copy of the homeowner's cancelled check.

I appreciate the assistance provided to me by Jim Jacobus, Sheree Gilliam, Vickie Lay, Dan Hitchcock, Charlie Lewis, Sherry Bodner, Lorie Statom and other members of the Inter-County Energy staff during this review. I look forward to working with you on our next project.

  
Graham F. Johns, CPA

June 30, 2005

Audit Committee  
Inter-County Energy Cooperative  
P.O. Box 87  
Danville, KY 40423-0087

Subject: Internal Audit of Inventory Control

### Introduction

As of December 31, 2004, Inter-County Energy Cooperative's investment in electric materials and supplies inventory was \$207,167. Internal control over materials and supplies is important to sound asset management.

The primary functions of inventory control in a utility are as follows:

- To purchase materials and supplies with the objective that they will be available at the proper time, in the proper place, in a quantity, quality and price consistent with cooperative needs.
- To maintain the investment in materials and supplies on hand at the lowest possible level consistent with providing good service to using departments.

### Scope and Objectives of the Report

The scope of this audit, authorized by the Audit Committee, encompassed an examination and evaluation of the adequacy and effectiveness of Inter-County Energy Cooperative's system of inventory control and the quality of performance in carrying out assigned responsibilities. These responsibilities include (a) balancing the conflicting objectives of minimum inventory investment and maximum service levels and (b) answering the following questions: What to order? How much to order? When to order?

The audit objectives were:

- To provide the audit committee with an independent appraisal of the inventory control function.

### Inventory Turnover Ratio

The inventory turnover ratio is an indicator of how efficiently the inventory investment is utilized. It is calculated by dividing total inventory charge outs in dollars by the average inventory, as follows:

$$\text{Inventory Turnover} = \frac{\text{Materials and Supplies Used (Net)}}{(\text{Balance Beginning of Year} + \text{Balance End of Year})/2}$$

A relatively high turnover ratio results in significant benefits, such as less required storage space, lower inventory carrying costs (interest, insurance, taxes), and fewer losses due to obsolescence, deterioration, and theft. A low turnover ratio may imply a lack of efficient inventory controls, an overabundance of inventory, or the existence of a few high-value spares. As shown in the table below, for 2004, Inter-County's inventory turnover ratio of 4.0068 was the third highest in the East Kentucky Power Cooperative system. For 2003, the inventory turnover ratio was 2.5536.

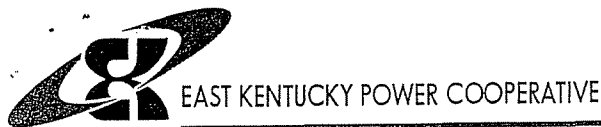
COOPERATIVE	INVENTORY TURNOVER RATIO
Nolin	4.7043
Fleming-Mason	4.5432
<b>Inter-County</b>	<b>4.0068</b>
Owen	3.2378
Shelby	2.9419
Cumberland Valley	2.8133
Blue Grass	2.5809
Clark	2.5567
Farmers	2.2832
Salt River	2.2762
Jackson	2.1600
Grayson	2.0596
Licking Valley	2.0515
South Kentucky	2.0472
Taylor County	1.3057
Big Sandy	-0.5308
System Average	2.5228

or 2.03 percent of the inventory investment, which is quite reasonable. I do suggest tracking both the net and gross physical inventory adjustments, since large overages and shortages can offset each other. The gross or absolute adjustment can give a better picture of how well materials management is maintaining the accuracy of its perpetual inventory records.

Lastly, I should note that both warehouses are open, meaning non-warehouse personnel have access and might take or return materials without completing the proper paperwork. However, given the size of the inventory investment and the physical inventory adjustment, the cost of having a closed warehouse would likely outweigh the benefits.

I appreciate the assistance of the Inter-County Energy staff during this review. I look forward to working with you on our next project.

Graham F. Johns, CPA



AUDIT COMMITTEE FILE  
INTER-COUNTY ENERGY, Jan 17  
RECEIVED  
OCT 13 2005 8 of 30

September 30, 2005

OFFICE OF PRESIDENT / CEO

Audit Committee  
Inter-County Energy Cooperative  
P.O. Box 87  
Danville, KY 40423-0087

Subject: Internal Audit of Security

### Introduction

In the summer of 2005, Inter-County Energy Cooperative moved into its new headquarters building in Danville. In addition, its Lebanon office is undergoing renovation. Safeguarding these assets, and more importantly the human assets who work there, is critical.

### Scope and Objective of the Report

The purpose of this audit, authorized by the Audit Committee, was to determine whether appropriate physical security and access control measures have been established. This audit only looked at physical security, not cyber or data security.

### Method of Obtaining Data

To accomplish the above objective, Graham Johns (Internal Auditing Manager) and Vernon Shearer (Corporate Safety and Compliance Supervisor) from East Kentucky Power Cooperative toured both facilities. We also interviewed Marvin Graham (Vice President of Operations), David Phelps (System Engineer), and Sharon Morris (Lebanon District Office).

In addition, we obtained an Employee Training Checklist from Mike Norman, RUS Field Representative, which is attached to this report as an information item.

### Physical Security and Access Control Measures

Both the Danville and Lebanon facilities have established numerous physical security and access control measures. To list them all would be nearly impossible; however, some of the key measures we observed are as follows:

4775 Lexington Road 40391      Tel. (859) 744-4812  
P.O. Box 707, Winchester,      Fax: (859) 744-6008  
Kentucky 40392-0707      <http://www.ekpc.com>

### Danville Office

- Perimeter and building access controls—fencing, gates, and doors—are in place to delay or deter unauthorized entry.
- Doors are locked and accessed by keys or cards.
- Fencing is adequate, and gates are locked.
- Doors to mechanical rooms are locked.
- The motor-operated gate on the right side of the headquarters building restricts access to the premises, especially by drive-through customers.
- Closed-circuit television cameras allow the entire premises to be monitored.
- The height and depth of customer service counters limit easy access to employees and money.
- The drive-through window is bullet proof.
- Fire evacuation routes and maps have been developed and will be posted.
- Exits are well marked.

### Lebanon Office

- The garage storage area is locked.
- Money is kept in a locked safe until deposited in the bank.
- A motion detector is activated after hours.
- An emergency button will be installed.

Both locations have knowledgeable employees as to what to do if an emergency situation occurs.

## **Suggestions for Improvement**

### Danville

#### **1. Station an employee in or near the front lobby.**

No one is presently stationed in the front lobby to observe the entrance to the headquarters building. Granted, the entrance can be monitored via closed circuit television cameras, but that desk is not continuously manned. If a receptionist sees someone approaching the building carrying a weapon, he or she can trigger a device that locks all doors (external and internal) and notifies the appropriate personnel.

#### **2. Proceed with plans to install an emergency button (or silent panic alarm) in the collections area.**

3. **Install an eight-foot-high chain link fence around the pole yard and transformer storage area.**

This is more of a liability concern than a security issue.

4. **Make sure that directors and visitors know that the door between the Board Room and the balcony outside is not an exit.**

### Lebanon

5. **Install a larger window beside the front door, similar to the one on the left as you walk in the office.**

This would better enable office personnel to observe someone suspicious approaching the building.

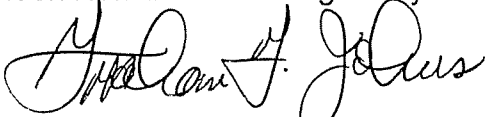
6. **Install fencing around the perimeter of the premises.**

Again, this is more of a liability concern than a security issue. Children are often tempted to climb on poles. (Also, some poles are stored on the ground, which can accelerate decay.)

7. **Put up a sign reading NO PUBLIC RESTROOMS or limit access to the restrooms.**

Members pay their bills in the front of the office, while the restrooms are in the rear, next to the safe. Watching people walking back and forth is not possible at all times.

I appreciate the assistance of the Inter-County Energy staff during this review. I look forward to working with you on our next project.

  
Graham F. Johns, CPA



December 30, 2005

Audit Committee  
Inter-County Energy Cooperative  
P.O. Box 87  
Danville, KY 40423-0087

Subject: Internal Audit of Meter Reading

### Introduction

Meters are the cash register of an electric utility. They record the consumption of energy by consumers and are the source media for billings from which the utility derives practically all its revenue. Inter-County Energy Cooperative has about 24,500 meters.

### Scope and Objectives of the Report

The scope of this internal audit, authorized by the Audit Committee, included an examination and evaluation of internal controls that assure the Cooperative that all meters registering energy are being read and billed.

The audit objectives were to:

- Determine whether meter readings used in customer billings are free of significant error, which could lead to serious revenue losses.
- Analyze the average read time per day for each meter reader.
- Review controls over the accurate transmission of meter-reading data from handheld devices to the organization's computer.

### Method of Obtaining Data

To accomplish the above objectives, I interviewed the following people:

- Sheree Gilliam—Vice President of Customer Services
- Jackie Raines—Manager of Customer Services
- Chris Bach—Computer System Administrator
- Joe Randolph—Supervisor, Tru-Check (Utility Meter Services) Inc.

In addition, on December 13, 2005, I accompanied Joe Randolph on his meter-reading route. As he keyed in the meter readings, I recorded the  $K_h$  and  $R_r$

information for 87 meters to later verify that meter constants (multipliers) used for billing purposes are accurate.

### Meter Reading

Tru-Check Meter Services, based in Somerset, reads meters for the Cooperative. A supervisor and five employees are fully dedicated to Inter-County. Meter readers use an Itron handheld meter reading system for gathering data. The system creates each meter-reading route.

For each stop on a route, the Itron handheld device shows the member's name, address, meter number, service location number, sequence number, and a brief property description (e.g., gravel drive right, white house, [meter in] back). Once the reader verifies the meter number, he or she enters the energy (kWh) and, if applicable, the demand (kW) readings. The system has a built-in "high-low" check, and if the reading is outside the specified range, the reader must re-enter both the meter number and kWh reading. At the end of the route, the handheld device is placed into a docking station, and all information is downloaded to the Cooperative's computer system.

Occasionally, meters cannot be read because of locked gates, threatening animals, inclement weather, or because a meter has been blocked, removed, or cannot be located. In such cases, the usage must be estimated. Approximately 300 bills are estimated each month. Some meters are inactive and only read quarterly. Lastly, 17 members do not want anyone on their property and pay an additional fee for automated meter reading.

Inter-County originally signed a five-year contract with Tru-Check on March 1, 1996. The contract included a set-up fee of \$52,156 plus a charge of \$0.8267 per meter read. The contract also included a gasoline escalation clause and an annual increase of one cent per meter read. On March 1, 2001, the contract was renewed. A recent invoice showed the following:

Total number of meters read—24,094  
Rate per meter read—\$0.9167  
Total invoice—\$22,086.97

The total annual cost is approximately \$265,000. One of the objectives of this audit was to analyze the average read time per day for each meter reader. Since Tru-Check bills by the meter read and not by the hour, this information is not as critical. Nonetheless, we read 87 meters in three hours, or an average of about one every two minutes, and I probably slowed down the process a little. Some meter readers read as many as 300 meters a day.

## Billing

After the billing information is downloaded to the Cooperative's computer system, the Customer Accounts Department goes through a series of meter read edits, by route number. The computer might give a warning that a meter was not read (estimated); usage was high, low, or less than the previous usage; or the reading was out-of-cycle (e.g., closed account). After reviewing the usage history, if the reading still seems out-of-line, Customer Accounts will ask for Tru-Check to re-read the meter. If the first reading was incorrect, Tru-Check is not paid for the re-read. [Meter-reading accuracy is 99.862 percent.] Once a Final Exception/Review Report is generated, bills are ready for printing.

An FTP (file transfer protocol) file is then transmitted to Mail Solutions in Somerset, who prints, stuffs, and mails the bills. Inter-County has four billing cycles. The Computer System Administrator knows how many bills should be in each cycle. Prior to each mailing, Mail Solutions reconciles the number of bills mailed with the number that should be mailed.

## Meter Constants

Some electric meters are manufactured to record usage at a certain percentage and require that a "multiplier" be applied to that usage in order to obtain the correct billing amount. In the utility industry this is called a "meter constant." The formula is as follows:

$$K_r = \frac{K_h \times R_r \times R_s \times CT \times PT}{10,000}$$

$K_r$  = Dial constant (Register multiplier): Multiply dial reading (meter consumption) by " $K_r$ " to get total kWh and/or kW to be billed to the consumer. (For 85 of the 87 meters I observed, the meter constant was 1.)

$K_h$  = Watt-hour constant (disk constant): Watt-hours recorded for each revolution of the meter disk. (For all but three meters, the  $K_h$  was 7.2.)

$R_r$  = Register ratio: Number of turns of the register worm gear to cause one revolution of the right hand dial pointer. (For all but three meters, the  $R_r$  was either  $13 \frac{8}{9}$  or  $27 \frac{7}{9}$ .)

$R_s$  = Shaft gear reduction: Ratio between the rotor shaft and the engaging gear. (For all but three meters, the  $R_s$  was either 50 or 100.)

CT = Current Transformer Factor ratio (if applicable)

PT = Potential Transformer Factor ratio (if applicable)


I found no exceptions during this part of the audit. Therefore, based on this sample, in my opinion, the meter constants used for billing purposes are accurate.

### Recommendation

#### In time, analyze the costs and benefits of implementing Automated Meter Reading (AMR).

In light of the recent construction of the headquarters building in Danville and renovation of the Lebanon facility, the timing might not be right to implement automated meter reading. A cost-benefit analysis, however, would be in order. An optimistic estimate of the payback period for implementing AMR is in the two-to-five-year range. I suspect, however, that the meter vendors themselves have made most of these estimates. A more realistic estimate would probably be in the five-to-ten-year range. Identifying all the costs and benefits associated with AMR will not be an easy task. Costs include more than just the metering equipment, and benefits include more than simply saving dollars (e.g., increased accuracy). One source concluded that AMR might not be cost effective unless combined with other advantages of advanced metering.

I appreciate the assistance of the Inter-County Energy and Tru-Check staff during this review. I look forward to working with you again during the coming year.



Graham F. Johns, CPA



EAST KENTUCKY POWER COOPERATIVE

Item 17  
15 of 30

INTER-COUNTY ENERGY  
RECEIVED

April 24, 2006

MAY 04 2006

OFFICE OF PRESIDENT / CEO

Board of Directors and Management  
Inter-County Energy Cooperative  
P.O. Box 87  
Danville, KY 40423-0087

Subject: Internal Audit of Right-of-Way Maintenance

### Introduction

Inter-County Energy Cooperative operates and maintains 3,502 miles of distribution lines in twelve counties. The Operations Department is responsible for maintaining the right-of-way, as required for reliable consumer service. This includes cutting hazardous trees and applying chemicals to restrict re-growth. The right-of-way maintenance budget is \$750,000.

### Scope and Objectives of the Report

The scope of this audit, authorized by the Audit Committee, encompassed a review and appraisal of the adequacy and effectiveness of the Cooperative's right-of-way maintenance program. The period covered was 2005.

The audit objectives were to determine whether: (1) right-of-way maintenance is performed efficiently and economically, (2) the program is achieving the desired results, and (3) controls over record keeping and reporting are adequate and effective.

### Method of Obtaining Data

To accomplish the above objectives, I interviewed Marvin Graham, Vice President of Operations, and Clayton Watts, Maintenance Superintendent, and accompanied the latter on his April 4, 2006, field inspection. In addition, I reviewed 14 cash disbursements totaling \$639,676.33 to Townsend Tree Service Inc. and compiled service interruption data from RUS Form 7s.

### Right-of-Way Maintenance Program

Inter-County Energy uses Townsend Tree Service for right-of-way maintenance. The Cooperative previously used both Townsend and Bowman Tree Service, but

when the latter went out of business, an exclusive agreement was made with Townsend. Normally, auditors would recommend competitive bidding, but this arrangement seems appropriate. Townsend employs a general foreman, who makes all hiring, firing, and scheduling decisions. Typically, Townsend uses five three-person cutting crews that work four ten-hour days a week. During spraying season, the company will likely switch to four cutting crews and two spraying crews.

Most right-of-way clearing work is for maintenance (account number 593.10) versus new construction (account number 107.20), as shown in the table below.

Payee	A/C #593.10	A/C #107.20
Townsend	\$602,661.36	\$27,939.42
Other	1,261.61	--

Each year, Townsend submits proposed rates for work on the Inter-County system, which are approved by the Vice President of Operations. The rates include personnel costs per hour, equipment costs per crew hour, and chemical prices. Equipment includes trucks, chippers, and chain saws, but not tractors or bush hogs. Based on my own experience with tree service companies, I have found that it is more economical to contract services by the hour than to obtain estimates for each job.

The Maintenance Superintendent inspects the jobs and approves the invoices, along with the Vice President of Operations. The re-cut cycle is approximately four years, with some sections requiring more or less frequent cuttings. The Cooperative prefers to cut down whole trees, though sometimes that depends on the member's preference. Likewise, some members want only brush removed and to keep the wood, while others want everything removed. The Cooperative also offers a replacement tree program, replacing larger trees with smaller ones, like dogwoods.

To determine the effectiveness of the right-of-way maintenance program, I reviewed service interruptions as reported on RUS Form 7. Inter-County's five-year average hours per consumer (by all causes) totaled 3.06. This was the fifth lowest among the 16 members of the East Kentucky Power Cooperative system and well below the overall average of 6.71. Granted, this might not be the best measure of the effectiveness of a right-of-way maintenance program, but it is the most readily available data.

### Record Keeping and Reporting

Based on my review of 14 payments, I conclude they are being processed in accordance with sound business practices. Specific findings were as follows:

- Check numbers, amounts, dates, and payees on check copies agreed with the same information in the Accounts Payable Distribution Posting.
- All cash disbursements were properly approved.
- Account distributions were proper, as follows:
  - 593.10—Maintenance of Overhead Lines—Right-of-Way Clearing
  - 107.20—Construction Work in Progress
- Unit prices were agreed to the approved proposed rates.
- Hours worked per the invoices were traced to the Line Clearing Time Reports, on a test basis, without exception. These reports also include information such as the number of trees trimmed and cut and feet of brush cleared.

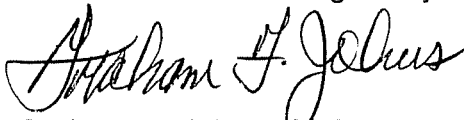
The Operations Department also prepares a monthly report for the Board of Directors showing miles of right-of-way cut and acres sprayed, by crew. In addition, the Townsend folder contains numerous notes from tailgate safety meetings.

### Recommendation

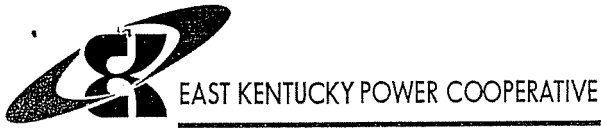
To avoid excessive liability or other financial exposure, executing a more formal agreement with Townsend Tree Service might be advantageous.

Attached to this report is a manual right-of-way clearing agreement between East Kentucky Power Cooperative and Asplundh Tree Expert Company, excluding price information. While all 25 terms and conditions might not be necessary, a purchase order or contract with provisions covering the risk of injury, damage claims, and insurance requirements would be appropriate.

I appreciate the assistance of the Inter-County Energy staff during this review. I look forward to working with you again on our next project.



Graham F. Johns, CPA  
Internal Auditor



EAST KENTUCKY POWER COOPERATIVE

INTERNAL AUDIT FILE

INTER-COUNTY ENERGY RECEIVED

JUN 28 2006

OFFICE OF PRESIDENT / CEO

June 12, 2006

18 of 30

Board of Directors and Management  
Inter-County Energy Cooperative  
P.O. Box 87  
Danville, KY 40423-0087

Subject: Internal Audit of Health Care Benefits

### Introduction

One of the goals of the human resources function is to help operating management recruit and retain a highly effective work force. One way to do this is by providing employee security through adequate and competitive benefits. Many employers and employees value health insurance as their most important fringe benefit. Therefore, this is a sensitive and emotional issue.

Inter-County Energy Cooperative participates in the Kentucky Rural Electric Cooperative ("KREC") Employers Benefit Plan (the "Plan"). Eligible participants include regular employees, directors, retained attorney, retirees, and their eligible dependents. Temporary and part-time employees are not eligible. The eligibility-waiting period is three months of continuous employment.

Inter-County's 2005 medical benefits costs were nearly \$1 million, as shown in the table below.

	Active Employees	Active Directors	Retired Employees/ Directors	Total
KREC Plan	\$686,214.51	\$72,407.63	\$153,466.76	\$912,088.90
Administrative	49,953.96	5,604.36	14,664.84	70,223.16
Total	\$736,168.47	\$78,011.99	\$168,131.60	\$982,312.06

Medical costs per employee were \$11,873, which—due to low employee turnover and an aging workforce—is higher than the national average (\$6,679 in 2004 according to Mercer Human Resource Consulting's *National Survey of Employer-Sponsored Health Plans*). Medical benefits costs represent 22.8 percent of payroll.



## Purpose and Scope of the Report

The purpose of this audit, authorized by the Audit Committee, was (1) to examine and evaluate the adequacy and cost-effectiveness of Inter-County’s medical plan design and (2) to offer practical cost-reduction options that do not require reduction of benefits or reductions in the quality of services. To accomplish this, answers to the following questions were necessary:

- What steps has Inter-County taken to control medical costs?
- For those steps that have not been taken, what is the reason and what is the likelihood they will be taken sometime in the future?

The audit scope covered the cost-effectiveness of the structure of the medical plan’s benefits, including the specific provisions for deductibles; coinsurance; and hospital, surgical, and major medical benefits. It did not cover administrative controls and efficiency or claims-processing accuracy and efficiency.

## Method of Obtaining Data

To obtain answers to the above questions, Vickie Lay, Vice President Finance & Accounting, and Debbie Wilmot, Human Resources, completed a brief questionnaire. Afterward, we interviewed them to discuss the questionnaire in greater detail. Lastly, we reviewed the Summary Plan Description and the following policies:

- Policy No. 205—Insurance, Retirement, and Savings Plans
- Policy No. 207—Sick Leave
- Board Policy No. 408—Director Fees, Compensation and Expenses

## Cost-Containment Features

Cost-containment options include increasing managed care discounts, making plan design changes, creating a healthier workforce, and increasing employee contributions. This section will examine some of the options available to employers today, including several innovative approaches to cost containment.

## Preferred Provider Organization (“PPO”)

Over the past few years, we have seen the total elimination of traditional indemnity plans and a shift into a Preferred Provider Organization (“PPO”). Commonwealth Administrators, the Plan’s third-party administrator (“TPA”), has contracted with the CHA Health PPO network. This health plan provides different levels of benefits depending on whether care is provided in or out of the network, as shown in the table below.

2006 Benefit Comparison	In Network	Out of Network
Inpatient/outpatient care	90% after deductible	70% after deductible
Doctor visits	\$20 co-pay	70% after deductible
Emergency room visits	\$50 co-pay	70% after deductible

CHA Health is the largest PPO network and has the largest discounts of any network in Kentucky. It includes every hospital but three in the state and 95 percent of all doctors.

This shift from traditional indemnity plans to PPOs follows a national trend. From 1993-2004, PPO enrollment rose from 27 to 58 percent of all covered employees. During the same period, enrollment in traditional indemnity plans dropped from 48 to 4 percent of all covered employees.

### Plan Contributions and Dependent Coverage

The medical plan is non-contributory. In other words, Inter-County is paying the entire cost of benefits for active employees and their dependents. This is a sensitive issue, yet one the Cooperative might want to explore. Of the 16 members of East Kentucky Power Cooperative, ten require employee contributions for single and/or dependent coverage, and six do not.

The KREC plan also includes a working spouse provision. That is, if an employee's spouse is employed and eligible for group coverage through that employer, and declines such coverage, this plan will be secondary for the spouse's claims and will pay only 20 percent of eligible charges up to a maximum of \$1,500 per calendar year. Inter-County has opted to waive out of this provision at a cost of \$50 per month per employee with a spouse. We understand this provision will be re-examined this year.

For retirees with a minimum of ten years of employment, upon reaching the early retirement age of 55, Inter-County will pay 100 percent of the premiums for employees retiring after October 9, 1998 until eligible for Medicare, at which time the Cooperative will pay 50 percent of the premiums. The Cooperative pays 50 percent of the premiums for employees who retired prior to October 9, 1998.

### Deductibles and Coinsurance

The medical plan provides for a \$250 inpatient or outpatient (whichever comes first) annual deductible, with a maximum of \$750 per family. The coinsurance out-of-pocket limit is \$1,000 per person or \$2,000 per family for in-network expenses and \$2,000 per person or \$4,000 per family for out-of-network expenses. Out-of-network expenses are also subject to reasonable and customary charges. According to the Mercer survey, some small employers have raised deductibles to levels that range from \$300 to \$1,000 or more.

## **Precertification**

All hospital admissions require precertification through the Hospital Utilization Management Program. If admission certification is not obtained for a hospital confinement, the covered person will be required to pay the first \$100 of the eligible hospital charges, before the plan benefits are payable. The CHA Network, however, has shifted this burden from the insured to the hospitals.

## **Case Management**

If a hospital admission has the potential for becoming a catastrophic case requiring long-term care, a case manager is assigned to the person covered. This voluntary service focuses on prolonged illnesses such as cancer, leukemia, and AIDS, as well as injuries, such as head or spinal injuries, needing specialized care. According to one research consultant, case management is one of the most cost-effective options. Employers have reported savings of up to \$7 for every \$1 invested in case management services. It emphasizes alternatives to inpatient hospital care, such as home health and hospice care.

Although the plan does not include a psychiatric claim review program, mental health coverage is limited to 30 inpatient days per year and 40 outpatient visits per year. Chiropractic care is limited to \$1,000 per year, and podiatric care (i.e., flat feet, bunions, corns, calluses, and toenails) is excluded from the plan.

## **Audit Programs**

To encourage employees to review their health care bills for errors, the Plan will pay a bonus of 50 percent of the savings to the Plan discovered up to a maximum of \$1,000 per claim. This must be a provider error, not an error by the third-party administrator. The TPA also uses a consultant to audit large hospital bills on a periodic basis.

## **Pre-existing Conditions**

The Plan does not have a pre-existing conditions limitation for new hires provided they make written request for coverage within 31 days after becoming eligible. However, if the written request for coverage is made after the 31-day period, new hires will be subject to an 18-month pre-existing condition exclusion period.

## **COBRA**

Inter-County has an in-house COBRA compliance system that includes notification of new hires, qualifying event notification, monitoring of eligibility

period, and monthly bill processing and management. We reviewed several COBRA continuation coverage election notices for timely filing and found no exceptions.

## Prescription Drugs

Twenty-five years ago, drugs constituted about five percent of total health plan costs. Today, that figure is in the 15-18 percent range, with drug costs for retirees in a medical plan consuming as much as 40 percent of the total medical bill. To keep a lid on drug costs, many plans turned to mail order prescription drug programs and emphasizing generic drug substitution over brand-name drugs whenever possible.

The KREC plan requires a \$25 co-payment for a brand name drug (with or without a generic drug available) versus a \$7 co-payment for a generic drug. A pharmacy can fill up to a 34-day supply. Maintenance and long-term prescription drugs can be filled via mail order for up to a 90-day supply, with the same co-payments. The next step to contain costs might require shifting more costs to the employee.

## Wellness Programs

According to John Williams, past president of the National Rural Electric Cooperative Association, "as a means of medical cost containment, the wellness concept stands out as the most effective cost-fighter and with the most positive appeal to employees." Inter-County's wellness program includes, but is not limited to, the following:

- Employee and spouse physical exams
- Annual mammograms
- Adult immunizations, including flu shots
- Well child care up to age one
- Routine pediatric immunizations and boosters up to age 19
- Exercise room
- Personal health assessment and exercise plans for individuals
- CPR classes for employees
- Quarterly blood drive
- Employee Assistance Program for employees and dependents
- Cooperative sponsored recreational activities (baseball, volleyball)
- Top Health Newsletter (monthly)
- Various Safety Training Programs
  - How to recognize employees with substance abuse problems
  - Accident prevention
  - Defensive driving for commercial vehicle drivers
  - Awareness of lifting techniques

Some companies have expanded their wellness programs to include smoke cessation classes and weight reduction programs, and some are paying bonuses (cash and non-cash) to those who voluntarily lose weight, lower cholesterol levels, or quit smoking.

### **Sick Leave Policy**

To reward good attendance and reduce sick leave taken, sick leave may be accumulated up to a maximum of 520 hours (65 days or 13 weeks). Upon reaching the 520-hour maximum, additional hours earned each month and not taken will be paid as a bonus on the final payroll check on the month.

### **Benefit Communication Programs**

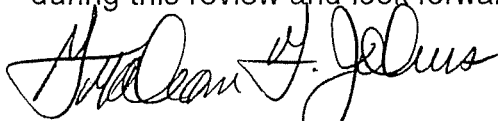
To discourage excessive health insurance claims, employers need to heighten the interest of employees in the level of fees, frequency of services, and types of care. Inter-County Energy has a good benefit communication program, which includes the following:

- Annual statement of employer-provided benefits and costs
- Changes in the medical plan communicated at safety meetings (all employees must attend six per year)
- Retiree meeting each November
- New employee orientation
- NRECA representative talks to employees about non-medical benefits

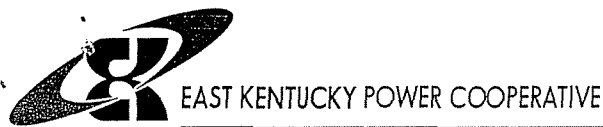
Some employers also include a summary of employer-paid benefits (including employer-paid Social Security benefits) per pay period and year-to-date on every pay stub expressed in total dollars and as a percentage of pay.

### **Conclusions**

Based on our review, Inter-County Energy Cooperative provides adequate and competitive health care benefits and the plan is cost-effective. We have no specific recommendations for improvement other than to review some of the cost-containment options presented in this report to determine what works best for your cooperative. We appreciate the assistance of the Inter-County staff during this review and look forward to working with you again on our next project.



Graham F. Johns, CPA  
Internal Auditing and Performance Measurement Coordinator



August 31, 2006

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24 of 30  
INTER-COUNTY ENERGY  
RECEIVED

SEP 12 2006

OFFICE OF PRESIDENT / CEO

Board of Directors and Management  
Inter-County Energy Cooperative  
P.O. Box 87  
Danville, KY 40423-0087

Subject: Internal Audit of Transportation and Vehicles

### Introduction

Inter-County Energy Cooperative makes every reasonable effort to provide adequate transportation to employees who have a definite work-related need to have a vehicle available to them at all times. As shown in exhibit A, the Cooperative operates and maintains a fleet of 37 vehicles.

### Scope and Objectives of the Report

The scope of this internal audit, authorized by the Audit Committee, included a review and evaluation of the use of the Cooperative's entire vehicle fleet and the administrative policies and procedures that govern it.

The audit objectives were to determine whether: (1) the administrative policies and procedures covering vehicle assignment and storage are adequate and (2) the Cooperative is complying with both its own administrative policies and procedures and IRS regulations regarding taxable fringe benefits.

### Method of Obtaining Data

To achieve the above objectives, I reviewed the following documents:

- Inter-County Energy Cooperative Vehicle Listing
- IRS Publication 15-B, *Employer's Tax Guide to Fringe Benefits*
- Kentucky Division of Social Security Information Brochure, *The Employment Tax Responsibilities for Employer Provided Vehicles*
- Coopers & Lybrand Tax Topics Advisory—Automobiles: Substantiation and Compensation
- Procedure No. 6, *Use of Cooperative Vehicles*
- Transportation Charges, August 2005 – July 2006
- Personal Automobile Usage Worksheet

I also interviewed Vickie Lay, Vice President Finance & Accounting, for additional information.

### Fringe Benefit Overview

According to Internal Revenue Service Publication 15-B, *Employer's Tax Guide to Fringe Benefits*, any fringe benefit is taxable and must be included in the recipient's pay unless the law specifically excludes it. For example, an employer provides an employee with a fringe benefit when it allows the employee to use a business vehicle to commute to and from work. The employer must include in a recipient's pay the amount by which the value of a fringe benefit is more than the sum of the following amounts:

- Any amount the law excludes from pay
- Any amount the recipient paid for the benefit

### Fringe Benefit Exclusion Rules: Working Condition Benefits

This exclusion applies to property and services provided to an employee so that the employee can perform his or her job. All of an employee's use of a "qualified nonpersonal-use vehicle" is a working condition benefit. A qualified nonpersonal-use vehicle is any vehicle the employee is not likely to use more than minimally for personal purposes because of its design. Any vehicle designed to carry cargo with a loaded gross vehicle weight over 14,000 pounds is a qualified nonpersonal-use vehicle.

Though not specifically listed in IRS Publication 15-B, Publication 946 and a Kentucky fact sheet also include the following qualified nonpersonal-use vehicles:

- Bucket trucks (cherry pickers)
- Cranes and derricks
- Flatbed trucks
- Qualified specialized utility repair trucks

A specialized utility repair truck is defined as any truck (not including a van or pickup truck) specifically designed and used to carry heavy tools, testing equipment or parts if:

1. The shelves, racks or other permanent interior construction that has been installed to carry and store such heavy items is such that it is unlikely that the truck will be used more than a "de minimis" amount for personal purposes, and

2. The employer requires the employee to drive the truck home in order to be able to respond in emergency situations for purposes of restoring or maintaining electricity.

**Pickup trucks.** A pickup truck with a loaded gross vehicle weight of 14,000 pounds or less is a qualified nonpersonal-use vehicle if it has been specially modified so it is not likely to be used more than minimally for personal purposes. For example, a pickup truck qualifies if it is clearly marked with permanently affixed decals, special painting, or other advertising associated with the employer's trade, business, or function and meets either of the following requirements:

1. It is equipped with at least one of the following items.
  - a. A hydraulic lift gate
  - b. Permanent tanks or drums
  - c. Permanent sideboards or panels that materially raise the level of the sides of the truck bed
  - d. Other heavy equipment (such as an electric generator, welder, boom, or crane used to tow automobiles and other vehicles)
2. It is used primarily to transport a particular type of load (other than over the public highways) in a construction, manufacturing, processing, farming, mining, drilling, timbering, or other similar operation for which it was specially designed or significantly modified.

Inter-County has nine vehicles assigned to employees (shaded in gray in exhibit A) who do not pay taxes on the commuting fringe benefits based on the working condition benefit exclusion rules. I believe all nine vehicles meet the requirements of these rules, but I recommend management double-check to make certain. I should mention that there are also special rules for vans, but since none are used as qualified nonpersonal-use vehicles, I omitted them.

### **Fringe Benefit Valuation Rules**

For those commuting benefits not excluded by law, the IRS has three special valuation rules that relate to automobile usage:

- Cents-Per-Mile Rule
- Commuting Rule
- Annual Lease Value Rule

Only the President and CEO uses the annual lease value rule, because he is permitted to use his vehicle for personal reasons. I reviewed his personal automobile usage worksheet and determined that these rules have been properly applied.



Ten employees use the commuting rule. Under this rule, the employer determines the commuting value by multiplying each one-way commute (from home to work or vice versa) by \$1.50. However, this rule may only be used under limited circumstances. To use this rule, the employer must meet all the following requirements:

1. The employer owns or leases the vehicle and provides it to one or more employees for business use.
2. For bona fide noncompensatory business reasons, the employee is required to commute in the vehicle. The term "bona fide noncompensatory business reason" means that the employee must be required to commute in the vehicle for the benefit of the employer, not for the benefit of the employee. Examples include the following:
  - The employee drives a van in an employer-sponsored carpool.
  - The car, though unmarked, is outfitted with communications or other equipment the employee would need if on call 24 hours a day.
  - The unavailability of parking at the workplace (or the danger of vandalism to the vehicle when stored overnight on company premises).
  - An employee in the field, who would otherwise have to return to the workplace before going home, might be able to work longer if allowed to commute in an employer-provided vehicle. It is not enough for the employer to simply state that it requires employees to commute in employer-owned vehicles.
3. The employer establishes a written policy under which the employee is not allowed to use the vehicle for personal purposes, other than for commuting or de minimis personal use (such as a stop for a personal errand on the way between a business delivery and the employee's home).
4. The employee does not use the vehicle for personal purposes, other than commuting and de minimis personal use.
5. If this vehicle is an automobile, pickup truck, or van, the employee who uses it for commuting is not a "control employee" (e.g., an employee whose pay is \$175,000 or more).

Since Procedure No. 6, *Use of Cooperative Vehicles*, specifically states, "No Cooperative vehicle shall be used for personal purposes other than very limited personal use (i.e., stopping on a personal errand while commuting to or from work)," the only requirement I am concerned about is No. 2, bona fide noncompensatory business reasons. In the recommendation below, I suggest incorporating some additional language into this procedure to help meet this

commuting rule requirement. Otherwise, the cents-per-mile rule might have to be used (44.5 cents a mile for 2006).

### Charging Employees for the Commuting Use of Vehicles

A question was raised at the outset of this audit about charging employees for the additional benefit of driving cooperative-owned vehicles to and from work. As shown in exhibit B, for August 2005 through July 2006, the operating cost per mile for these vehicles was 25 cents. The total cost per mile, including depreciation expense, was 46.6 cents, which is close to the IRS rate of 44.5 cents for 2006. The value of the commuting fringe benefits would then be reduced by the amount the employee paid for the benefit.

### Recommendation

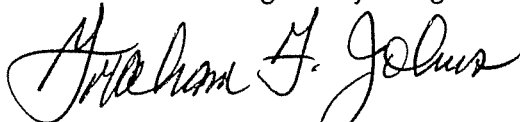
Include the following language in Procedure No. 6, *Use of Cooperative Vehicles*:

A vehicle may be assigned to an employee whose work requires extensive use of a vehicle on the average of at least three days per week. This assigned vehicle may be stored at home overnight only if:

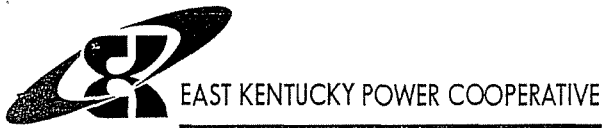
1. The employee regularly travels directly from home to his or her fieldwork.
2. The employee experiences and makes a regular practice of answering "service calls" without going to his or her "headquarters."
3. The employee has coordinating responsibilities in emergency situations, which have a direct and immediate impact on the continuity of service to members.

This language will help meet all five requirements of the "commuting rule."

I appreciate the assistance of the Inter-County staff during this review and look forward to working with you again on our next project.



Graham F. Johns, CPA  
Internal Auditing and Performance Measurement Coordinator



Item 17  
29 of 30

INTER-COUNTY ENERGY  
RECEIVED

DEC 21 2006

OFFICE OF PRESIDENT / CEO

November 20, 2006

Board of Directors and Management  
Inter-County Energy Cooperative  
P.O. Box 87  
Danville, KY 40423-0087

Subject: Internal Audit of Employee Expenses and Advances

### Introduction

Employees and members of the board of directors are occasionally required to travel as part of their official duties for Inter-County Energy Cooperative. Such travel will necessitate the advancement or reimbursement of transportation, food, lodging, and entertainment expenses. The total travel budget for 2006 is approximately \$100,000. Sound business practices dictate a strong system of internal control, including accounting controls, to guard against the uneconomical or improper use of resources.

### Scope and Objective of the Report

The scope of this internal audit, authorized by the Audit Committee, included an examination and assessment of the adequacy and effectiveness of Inter-County Energy Cooperative's system of internal control over employee and director travel and out-of-pocket expenses. The period covered was January through October 2006.

The primary objective of the report is to determine compliance with Policy No. 218 ("Travel Expenses") and Board Policy 408 ("Director Fees, Compensation and Expenses").

### Method of Obtaining Data

To accomplish the above objective, a sample of 20 payments totaling \$27,196.35 was selected from the Accounts Payable Distribution Posting for testing. Tests included an examination of:

- Check copies
- Check Request Vouchers, Personal Expense Reports, or Expense Statements—Officers and Directors, as appropriate
- Receipts or statements, as appropriate

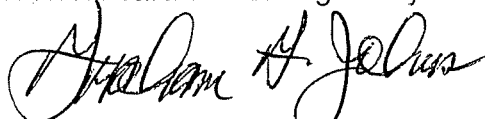
4775 Lexington Road 40391  
P.O. Box 707, Winchester,  
Kentucky 40392-0707

Tel. (859) 744-4812  
Fax: (859) 744-6008  
<http://www.ekpc.coop>

## Findings and Conclusions

- Check numbers, amounts, dates, and payees on check copies agreed with the same information in the Accounts Payable Distribution Posting.
- All reimbursements were properly supported by signed disbursement requests, with receipts or statements attached as appropriate.
- All advances and reimbursements were properly approved. For his own protection, the President and CEO might want to have his expenses approved by a member of the Board of Directors (e.g., Secretary-Treasurer) prior to payment. There is, however, a compensating control. Board member Kevin Preston reviews all checks issued.
- Additions and extensions were recalculated, without exception.
- Account distributions were proper. Travel and out-of-pocket expenses are generally charged to one of the following accounts: 107.20 (Construction work in progress), 583.00 (Overhead line expenses), 903.00 (Consumer records and collection expenses), 908.00 (Consumer assistance expenses), 921.00 (Office supplies and expenses), or 930.32—930.39 (Directors' fees and expenses).
- Policy No. 218 and Board Policy 408 were followed without exception.

I appreciate the assistance of the Inter-County Energy staff during this review. I look forward to working with you again next year.



Graham F. Johns, CPA  
Internal Auditing and Performance Measurement Coordinator



Inter County Energy  
Case No. 2006-00415  
Second Data Request of Commission Staff

18. Refer to the Application, Exhibit 9, page 4 of 7, lines 78, 79,81, 82 and 84. Explain in detail why meal expenses for auditors should be included for rate making purposes.

Response

Lunches give employees an opportunity to discuss issues that may be otherwise to sensitive to discuss in an office setting.

In addition, audit fees are based on time expended and costs to provide the audit. By Inter County providing the lunches, this assists in keeping audit fees and services at a lower level. Inter County can control the costs for these expenses by paying for them.



Witness: James Jacobus

Inter County Energy  
Case No. 2006-00415  
Second Data Request of Commission Staff

19. Refer to the Application, Exhibit 10.

a. Refer to page 2 of 23. Inter County provides an additional \$125 per month to the Treasurer to cover the time expended to review invoices and sign checks. Provide a reasonable estimate of the amount of time expended each month performing the duties as described by Inter County.

The Treasurer expends approximately 3 - 4 hours each month to review invoices and, on very few occasions, sign checks. The primary function is to review the paid invoices.

b. Was Inter County aware that in previous electric distribution cooperative rate cases the Commission has excluded for rate-making purposes additional fees to officers of the board of directors? Explain why Inter County believes this additional per diem should be included for rate-making purposes.

The position of Treasurer of Inter County's board of directors is not just a title, but additional responsibilities, time and travel involved. The Treasurer has to spend additional time each month to review the invoices and sign checks.

c. Explain the nature and purpose of the following meetings attended by many of the directors. Include a detailed explanation of why each should be included for rate-making purposes. Provide a copy of any meeting materials or agendas provided to the attendees.

(1) Regional meeting (copy of agenda is attached)  
Educate and update directors on electrical issues.

(2) Strategic Issues Conference (copy of agenda is attached)  
Educate directors on new issues effecting electric industry.

(3) Territorial issues meeting (copy of agenda is attached)  
State and national territorial issues.

(4) Kentucky Association of Electric Cooperatives (KAEC) Director training.  
(copy of agenda is attached)  
Understanding financial reports and ratios.



(5) Coordinated Training Program

Coordinate seminars NRECA has on national level to the local level.

(6) National Rural Utilities Cooperative Finance Corporation Financial Forum

(copy of agenda is attached)

Understanding financial reports and ratios.

(7) National Rural Electric Cooperative Association (NRECA) Director Conference

(copy of agenda is attached)

Keep directors abreast of changes in the electric industry.

(8) NRECA regional meeting

same conference as (1) above

(9) Energy Management Conference (copy of agenda is attached)

Energy conservation and efficiencies.

It is extremely important for directors to be aware of issues effecting the electric industry. Not just from technical issues, but financial, operational and legal. To be updated, directors must attend meetings on a local level and also on the national level. Inter County encourages its directors to attend meetings and seminars to be knowledgeable and versed when discussion are being held regarding issues facing Inter County on both the national and local levels. NRECA, KAEC and CFC are the optimum avenues for directors to fill this critical need. Directors can only serve their members by making sound, well-informed decisions. All the above meetings fulfill those goals, and thus, should be included for rate-making purposes.

- d. Refer to page 8 of 23. Explain the nature and purpose of the internet and telephone expenses. Explain in detail why the expenses should be included for rate-making purposes.

Inter County faxes the monthly agenda, board package materials and other items as necessary each month. To facilitate this process, if a director does not have the capability to receive faxes automatically, Inter County will pay for this service on the director's phone line. Without this service, it may take numerous calls and time expended to get faxes to the directors.

e. Refer to page 9 of 23, line 29. Explain why a flu shot should be included for rate-making purposes.

Inter County provides this service as a part of its Wellness Program for both directors and employees. We attempt to take advantage of ways to contain costs for the health insurance plan and also to maintain the health of directors and employees who are vital to the effective operation of the company.

f. Refer to page 11 of 23, line 41. Inter County removed all other associated KAEC annual meeting expenses for rate-making purposes for this director. Should this expense be removed for rate-making purposes?

This was an oversight only. Should have been removed.

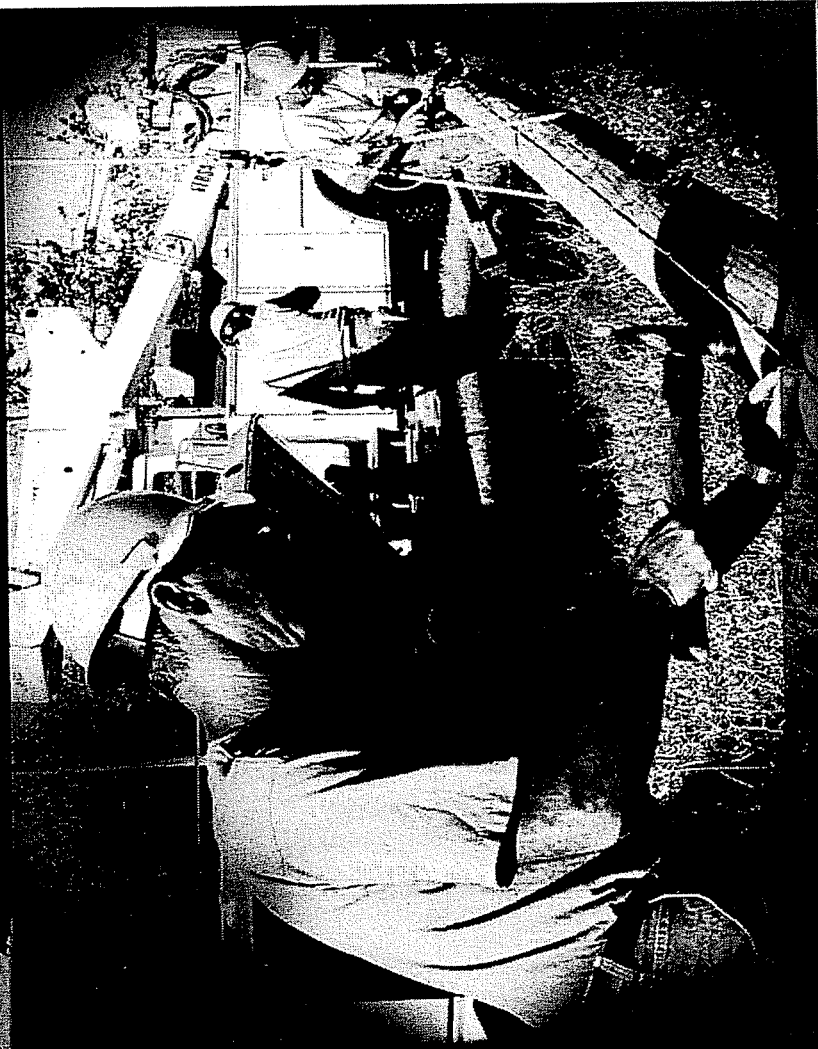
g. Refer to page 15 and 16 of 23. Explain why Inter County has included the NRECA Annual Meeting expenses for this director for rate-making purposes when he is not the designated NRECA representative.

The NRECA annual meeting is a combination of training and education seminars for directors during the day and more organizational activities in the evenings. These programs are similar to the education seminars that NRECA sponsors at the Director Conferences and Regional Meetings. As such, these costs and expenses should be included for rate making purposes.

h. Refer to page 21 and 22 of 23. Explain why Inter County has included the NRECA Annual Meeting expenses for this director for rate-making purposes when he is not the designated NRECA representative.

The NRECA annual meeting is a combination of training and education seminars for directors during the day and more organizational activities in the evenings. These programs are similar to the education seminars that NRECA sponsors at the Director Conferences and Regional Meetings. As such, these costs and expenses should be included for rate making purposes.

# The POWER to Make a Difference



2006 DIRECTOR PRE-REGIONAL MEETING TRAINING

*Enhance your skills as a co-op director.*

*Keep current on issues facing co-op directors in today's energy environment.*

*Gain credits towards your Credentialed Cooperative Director (CCD)  
and Board Leadership certificates (BLC).*



14em 19 4 of 30

# The POWER to Make a Difference



Enhancing reliability and controlling costs are top of mind for electric cooperatives today. I invite you to your 2006 NRECA Regional Meeting where we will focus on these critical issues and how we as cooperatives have "The Power to Make a Difference."

The meeting agenda includes educational forums on:

- power supply,
- lessons learned in disaster planning,
- the politics of climate change, and
- attracting and keeping qualified cooperative employees.

The NRECA Regional Meetings are also a great opportunity to make your voice heard as the association's membership considers and votes on the resolutions that set your national association's policy and priorities.

I hope you will be able to join me and others in our cooperative family as we examine and debate the issues crucial to the future of the electric cooperative network. I look forward to seeing you this fall.

Sincerely,

GLENN ENGLISH  
NRECA CEO

## SCHEDULE

### REGIONS 1 & 4

HYATT REGENCY CINCINNATI  
CINCINNATI, OHIO

September 5

- Pre-Regional Training
- September 6 – 8
- New Director Orientation
- Regional Meeting

*Early Bird Deadline:*  
August 18, 2006

### REGION 5

CROWNE PLAZA SPRINGFIELD  
SPRINGFIELD, ILLINOIS

September 11

- Pre-Regional Training
- September 12 – 14
- New Director Orientation
- Regional Meeting

*Early Bird Deadline:*  
August 24, 2006

### REGION 9

WESTMARK FAIRBANKS  
FAIRBANKS, ALASKA

September 19

- Pre-Regional Training
- September 20 – 22
- New Director Orientation
- Regional Meeting

*Early Bird Deadline:*  
September 1, 2006

### REGION 7

OMNI INTERLOCKEN RESORT  
BROOMFIELD, COLORADO

October 3

- Pre-Regional Training
- October 4 – 6
- New Director Orientation
- Regional Meeting

*Early Bird Deadline:*  
September 15, 2006

### REGIONS 2 & 3

HYATT REGENCY ATLANTA  
ATLANTA, GEORGIA

October 8

- Pre-Regional Training
- October 9 – 11
- New Director Orientation
- Regional Meeting

*Early Bird Deadline:*  
September 20, 2006

### REGION 6

HOLIDAY INN OF FARGO  
FARGO, NORTH DAKOTA

October 23

- Pre-Regional Meeting
- October 24 – 26
- New Director Orientation
- Regional Meeting

*Early Bird Deadline:*  
October 5, 2006

### REGIONS 8 & 10

ADAM'S MARK ST. LOUIS  
ST. LOUIS, MISSOURI

October 30

- Pre-Regional Training
- October 31 – November 2
- New Director Orientation
- Regional Meeting

*Early Bird Deadline:*  
October 12, 2006

### ONLINE RESERVATIONS

You can make your hotel reservations online at [Cooperative.com](http://Cooperative.com).

#### BENEFITS

- 24-hour access to online hotel reservations
- Ability to make changes or cancel rooms online before the cut-off date
- Ability to waitlist for desired accommodations
- No more lost faxes
- Direct contact with housing center representative to assist with housing issues

**NOTE:** Region 9 Pre-Regional Training courses 2620.1 and 914.1 are sponsored by NWPPA. Register directly by calling 360.254.0109.



4 0430

# 2006 TENTATIVE AGENDA

## PRE-REGIONAL TRAINING PROGRAMS

- 2620.1 Board Roles and Relationships
- 914.1 Cooperative Communications and Public Opinion—The Director's Perspective

8:00 a.m. - 4:00 p.m.

## DAY ONE

- 8:00 a.m. New Director Orientation (half-day program)
- 8:00 a.m. Registration Opens (until 4:30 p.m.)
- 8:30 a.m. Resolutions Committee Meeting(s)
- 1:30 p.m. **FIRST GENERAL SESSION**
  - Welcome and Introductions
  - Report of the Chief Executive Officer
  - The Power Supply Mix: Myth and Reality
  - Resolutions Overview and Briefing
- 5:00 p.m. NISC District Membership Meeting(s)

## DAY TWO

- 7:00 a.m. ACRE Breakfast
- 8:00 a.m. Registration Reopens (until 4:00 p.m.)
- 8:30 a.m. Nominating Committee Meeting(s)
- 9:00 a.m. **SECOND GENERAL SESSION**
  - NRECA President's Report
  - Report of USDA Rural Development
  - Disaster Planning: Lessons Learned
  - Presentation of Credentialed Cooperative Director and Board Leadership Certificates
- Noon **GENERAL MEMBERSHIP LUNCHEON**
- 1:30 p.m. **THIRD GENERAL SESSION**
  - The Politics of Climate Change
  - International Programs Presentation
  - Report of the National Rural Telecommunications Cooperative
- 3:30 p.m. National Rural Utilities Cooperative Finance Corporation (CFC) District Meeting
- 4:30 p.m. International Programs Workshop
- 5:30 p.m. Regional Reception

## DAY THREE

- 7:00 a.m. CEO Breakfast
- 9:00 a.m. **FOURTH GENERAL SESSION**
  - Winning the War for Talent
  - Dialogue With the Membership
  - Call to Order
  - Adoption of Agenda
  - Adoption of Standing Meeting Rules
  - Approval of Minutes of 2005 Region Meeting
  - Introduction and Report of Nominating Committee
  - Election of Region Members to 2007 NRECA Standing Committees
  - Consideration of Proposed Resolutions
  - New Business
  - Adjournment



# DIRECTOR TRAINING OPPORTUNITIES

## 914.1 COOPERATIVE COMMUNICATIONS AND PUBLIC OPINION — THE DIRECTORS PERSPECTIVE

**Format:** 1-day course

**Hours:** 8:00 am – 4:00 pm

**Fee:** \$475

**Credit Available:** One (1) credit will be awarded upon completion of this course toward NRECA's Board Leadership certificate.

**Who Should Attend:** Directors

**Course Description:** Given the challenges of navigating through the evolving energy landscape, effective communications from the cooperative is an area of increasing importance. Whether it's communicating future rate increases or advertising your cooperative's participation in renewables, strong communication programs strengthen your identity with your consumers and build customer loyalty. This course guides participants as they explore the roles and responsibilities of directors with regard to communicating during a crisis or controversy and how to manage public opinion.

## 2620.1 BOARD ROLES AND RELATIONSHIPS

**Format:** 1-day course

**Hours:** 8:00 am – 4:00 pm

**Fee:** \$475

**Credit Available:** One (1) credit will be awarded upon completion of this course toward NRECA's Credentialed Cooperative Director (CCD) certificate.

**Who Should Attend:** Directors

**Course Description:** The success of the cooperative is based on its ability to nurture and maintain effective relationships with consumers, community leaders, media, public officials and others. This course explains how the director and the full board each play a key role in developing plans and in implementing actions to maintain and manage these relationships.

### KEY TOPICS INCLUDE

- Identifying the individuals and groups with whom the board must maintain effective working relationships
- Understanding, working with and responding to members
- How public officials and opinion leaders impact the cooperative and the board's role in building and maintaining effective relationships
- Lessons and guidelines regarding key internal relationships: the board's relationship with the Chair, the attorney and itself



### NEW DIRECTOR ORIENTATION

**Format:** This is a half-day interactive session facilitated by instructors from NRECA, CFC and NRTC.

**Hours:** 8:00 am – Noon (1st day of the Regional Meeting)

**Fee:** Free

**Credit Available:** No credit will be awarded for the completion of this session.

**Who Should Attend:** New directors of electric cooperatives and public power districts

**Session Overview:** This session is for first-term electric cooperative and public power district directors. It is being offered to provide new directors an opportunity to learn more about the consumer-owned sector of the electric power industry and the board member's role in governing these businesses. The session will also afford them the opportunity to learn about the cooperative business network, financial resources and other services available to their systems.

### KEY TOPICS INCLUDE

- Cooperative business structure and principles
- Local cooperative governance responsibilities
- Electric cooperative network
- Business support services and financing resources

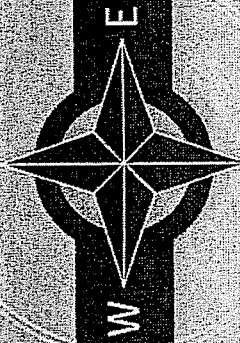
This session is designed to help first-term directors of local electric cooperatives and public power districts gain a broader understanding of

- The business purpose and structure of consumer-owned utilities
- The basic responsibilities in governing as board members
- The benefits of working together through a cooperative network
- The financing resources and other services available to support their local cooperatives and public power districts.

New  
2006

Updated  
2006





2005  
STRATEGIC ISSUES  
CONFERENCE

*Navigating the New Energy Landscape*  
*Communicating the Challenges to Your Members*

**EAST**

December 12-13, 2005  
Gaylord Opryland Resort and Convention Center  
Nashville, Tennessee

**WEST**

December 15-16, 2005  
Grand Hyatt Denver  
Denver, Colorado



# 2005 STRATEGIC ISSUES CONFERENCE

## Navigating the New Energy Landscape

Communicating the Challenges to Your Members

### DAY ONE

East - Monday, December 12  
West - Thursday, December 15

7:00 - 8:00 a.m.

#### REGISTRATION AND CONTINENTAL BREAKFAST

8:00 - 8:15 a.m.

#### WELCOME, PROGRAM OVERVIEW

• Tom Hall, *Director of Educational Programs, NRECA*

8:15 - 9:15 a.m.

#### DEFINING THE NEW ENERGY LANDSCAPE

• Llewellyn King, *Publisher, Energy Daily*  
The domestic energy environment that electric co-ops have known is rapidly changing. Join Llewellyn King as he analyzes how global consumption and the subsequent demand for natural resources will alter the domestic energy landscape for the foreseeable future.

9:15 - 10:15 a.m.

#### NAVIGATING THE FUTURE OF POWER SUPPLY

Rising fuel costs, new capacity needs and volatile competitive markets are making for choppy waters for the nation's electric utilities. A panel of G&T CEOs will comment on the industry forecast from Llewellyn King, discuss their system's future power supply challenges and how they're affected by the cost of fuels, the markets and transmission challenges. They'll also discuss the role of the local cooperative boards in future power supply decisions.

10:15 - 10:30 a.m.

#### BREAK

10:30 - 11:15 a.m.

#### UNDERSTANDING RENEWABLE ENERGY

• Floyd Barwig, *Director of the Iowa Energy Center*  
Cooperatives and their members are continuing to weigh the benefits and costs of renewable energy. The passing of the Energy Policy Act could make renewable energy options even more attractive for cooperatives. This session will define renewables, spotlight the policy issues involved, and explore the opportunities and obstacles to making renewable energy a bigger part of the mix.

1:30 - 2:45 p.m.

#### CONCURRENT SESSIONS

##### LOAD MANAGEMENT AND ENERGY EFFICIENCY

Almost all electric utilities are being forced to raise rates. In this environment, load management and energy efficiency programs can play an important role in helping to manage rate increases and as a way to communicate the cooperative advantage to consumers. This session will explore how both co-ops and investor owned utilities are implementing load management and energy efficiency programs, and will address the related policy questions that boards should consider.

##### CONTINUITY MANAGEMENT — KEY STEPS TO GETTING IT RIGHT

Rapid and effective response to natural, human, and cyber crises and disasters has been the trademark of America's electric cooperatives. Whether it's a hurricane, tornado, or employee sabotage, cooperatives must play an increasingly active and ongoing role in knowing how to best manage and recover from these types of situations. This session will focus on the fundamentals of continuity management, and how those fundamentals are evolving in the new energy environment. Attendees will hear from cooperative and continuity management experts, showing how the rural electric program continues to fulfill the responsibility of ensuring the continuity of electrical and business operations.

11:15 a.m. - Noon

#### ROUNDTABLE Q&A — ASK THE EXPERTS!

Here's your chance to pose pressing questions to our panel of energy experts.

Noon - 1:15 p.m.

#### LUNCHEON PRESENTATION — BUSINESS CONTINUITY MANAGEMENT AND THE UTILITY SECTOR

In times of crisis, cooperatives are faced not with just getting the power back on, but keeping the business operation running smoothly — everything from insuring that your financial and personnel records are maintained to communicating effectively with employees. Listen as international experts on business continuity management and crisis communications talk about the heightened expectations of utilities in the post 911 environment and how cooperatives can develop organizational resilience.



### TRENDS IN RENEWABLES AND COOPERATIVE POLICY IMPLICATIONS

Observers agree that renewables will play a larger role in the nation's energy resource mix. But the pros and cons regarding specific renewable technologies are still debated, and boards must still address the policy issues raised by renewables in their particular power supply and geographical situation. This interactive session will highlight the major areas that boards must consider.

### BUILDING ADVOCACY AND FOSTERING EFFECTIVE COMMUNICATIONS

In this changing environment, relationships and communications with public officials are increasingly important to the success of the cooperative. This session will explore the need for a formal plan to build and maintain relationships with public officials as an important part of the execution of the business strategy of cooperatives.

### TRENDS IN RATES AND COOPERATIVE APPROACHES

The cooperative utility industry is entering a state of rapid change resulting from substantial increases in underlying costs. This session considers the trends in utility costs and the underlying causes. It also identifies new and traditional remedies for maintaining a cooperative's financial strength in today's rapidly changing cost environment.

2:45 - 3:00 p.m.

### BREAK

3:00 - 4:15 p.m.

### CONCURRENT SESSIONS II REPEAT

4:15 p.m.

### ADJOURN

5:00 - 6:00 p.m.

### RECEPTION FOR CONFERENCE ATTENDEES AND GUESTS

## DAY TWO

East - Tuesday, December 13  
West - Friday, December 16

8:30 - 9:15 a.m.

### THE ENERGY POLICY ACT OF 2005

Jay Morrison, *Senior Regulatory Council, NRECA*

9:15 - 10:15 a.m.

### COMMUNICATING EFFECTIVELY

Steve Allen, *Sheehan and Associates*

Steve Allen will explore the fundamentals of effective communications plans and how cooperative leaders may need to be more proactive in addressing the impacts of these changes when communicating with consumers. This general session will focus on how to develop strategic communication messages around the key themes cooperatives are using to address the new energy environment (rates, load management and energy efficiency, emergency response planning, renewables, etc).

10:15 - 11:15 a.m.

### COOPERATIVES RISE TO THE COMMUNICATIONS CHALLENGE

A panel comprised of a co-op director, CEO, distribution system communicator and G&T communicator, moderated by Steve Allen will share their communication strategies and experiences.

11:15 a.m.

### FUTURE FOCUS AND ADJOURNMENT

## ACCOMMODATIONS

Please contact hotels directly to make your reservations

**EAST:**  
Gaylord Opryland Resort and Convention Center  
2800 Opdyland Drive  
Nashville, TN 37214  
TEL: 615-889-1000  
Room rate: \$179+ \$10 Resort fee  
Room Cutoff Date: November 11, 2005

**WEST:**  
Grand Hyatt Denver  
1750 Welton Street  
Denver, CO 80202  
TEL: 303-295-1234  
FAX: 303-295-1247  
Room rate: \$125 single/double  
Room Cutoff Date: November 10, 2005



11:45 – 12:15 Owen’s Industrial Park Cases

Jim Crawford  
Owen Legal Counsel

Perhaps the most critical case that we’ve been involved with relative to territorial issues in the last 25 years, was one involving the service to an industrial park in Owen’s territory. It actually challenged the constitutionality of the territorial law of Kentucky. There was also another case of major significance in Owen’s territory. Jim Crawford, Legal Counsel to Owen, will comment on both of these cases, but will also offer additional observations as well relating to the general matter of territorial protection.

12:15 – 1:00 Lunch

1:00 – 1:40 PSC Directives from  
Cumberland Valley Case

Dale Henley, (or designee)  
EKP General Counsel and  
Ron Willhite, Special  
Territorial Counsel to  
Cumberland Valley

Ron Willhite worked for Kentucky Utilities for a number of years in Lexington. He was the legal counsel for Cumberland Valley relative to their recent territorial case. He will share his professional observations on the case, it’s implications, and it’s possible effect on the relationship of the Kentucky electric cooperatives with the investor-owned electric utilities throughout Kentucky. Dale Henley (or his designee) will comment on related issues on behalf of the wholesale power provider.

1:40 – 2:30 A National Perspective on Territorial  
Problems and Some Do’s and Don’t’s  
At the Local Level

Rich Larochelle, Senior  
Vice President, Corporate  
Relations, CFC

Rich Larochelle, a vice president at CFC, has handled the administration of all applications to CFC for territorial defense funding for the last several years. As such, he has deep experience into how shared funding works – when its best used and when it should be avoided. He also has a lot of experience relating to the do’s and don’ts at the local level. He will discuss what actions co-ops can take and what actions co-ops should refrain from taking relative to building a healthy foundation for territorial integrity.

2:25 – 2:30 Closing comments

Ron Sheets

\*\* Adjournment\*\*

**DIRECTOR TRAINING COURSES**

**Date:** April 18-19, 2006

**Time:** Registration 8:30 a.m.  
Program Begins at 9:00 a.m. and Concludes No Later Than 5:00 p.m.

**Location:** KAEC Statewide Office  
4515 Bishop Lane  
Louisville, KY 40218  
(800) 357-5232

**Hotel:** Holiday Inn  
4004 Gardiner Point Drive  
Louisville, KY 40213  
(502) 452-6361

Paul Ballard – Confirmation No. 64184736 – Arrival April 17, Departure April 19

Bob Martin – Confirmation No. 64183152 -- Arrival April 17, Departure April 19

Danny Divine – Confirmation No. 62738633 – Arrival April 17, Departure April 19

**Courses:**

**April 18 2640.1 – Financial Decision-Making (April 18)**

Attendees: Paul Ballard – Bob Martin – Danny Divine

**April 19 914.1 – Co-op Communications and Public Opinion “The Director’s Perspective”**

Attendees: Paul Ballard – Bob Martin – Danny Divine – Joe Spalding

## 2006 NRECA Director Courses Offered by KAEC

### Credentialed Cooperative Director (CCD) Course

#### **2640.1 Financial Decision Making (Revised 5/19/04)**

This course is designed to help directors understand the role of the board in financial planning, including identifying the basic documents used in financial planning and reporting, assessing the issues that drive financial decisions, balancing competing goals, and taking responsibility to monitor and evaluate results.

#### **Key topics include:**

- Understanding basic financial statements used by electric cooperatives
- Understanding the drivers that impact rates, revenues and costs
- Assessing the effects of board decisions on the long-term financial health of the organization
- Debt, equity management and capital credits
- The audit function of the board and the role of the financial auditor

**Instructor:** Rod Crile, Kentucky's CFC Regional Vice President

### Board Leadership Certificate Course

#### **914.1 Cooperative Communications and Public Opinion: *The Director's Perspective***

Given the challenges of navigating through the evolving energy landscape, effective communications from the cooperative is an area of increasing importance. Whether it's communicating future rate increases or advertising your cooperative's participation in renewables, strong communication programs strengthen your identity with your consumers and build customer loyalty. This course guides participants as they explore the roles and responsibilities of directors with regards to communicating during a crisis or controversy and managing public opinion.

**Instructor:** Jody Severson, NRECA Consultant



## “The Challenge of Change”

### Preliminary Agenda (April 6, 2006)

CFC Forum 2006 is all about change.

These changes include the human dimension as a generation of leaders exits our industry; changes in the U.S. and global economies including insight into the most powerful forces driving change in the world today; and changes and challenges in the energy markets that keep co-op leaders up at night.

With each of these changes, the goal of Forum 2006 is to leave you with key ideas and actions to meet the challenge of these changes and, in the process, make your co-op even more successful.

### Monday, June 19

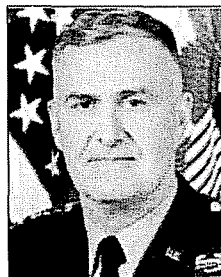


**Presiding: Cletus Carter, CFC President**

Monday’s General Sessions will focus on changes in the human dimension as a generation of leaders exits our industry. We will explore what kind of legacy co-op leaders will leave and how co-ops must position themselves for a successful transition.

**9 a.m.-5:30 p.m.**

**Registration and Product Showcase**



**1-2:15 p.m.**

#### **Leadership That Leaves a Legacy”**

**General Hugh Shelton**, 14th Chairman of the Joint Chiefs of Staff  
 During General Shelton’s 38-year career in the military he held numerous leadership positions. He participated in the liberation of Kuwait during Operation Desert Shield/Desert Storm. He commanded the XVIII Airborne Corps where he led the U.S. Joint Task Force that restored democracy in Haiti. When Shelton was promoted to general, he became the commander-in-chief of the U.S. Special Operations Command.

2:15-2:45 p.m.  
Break/Product Showcase

2:45-4:15 p.m.  
Breakout Sessions

**"What a Director Needs to Know about Electric Rates"**

- *Tom Lewis, Ph.D.*, Professor of Accounting, Creighton University
- *Tom Nusbaum*, Vice President of Member Services, CFC

**"Top 10 Accounting and Tax Issues"**

- *Kevin Dolan*, Partner, Deloitte & Touche
- *Lynn Midgette*, Vice President–Portfolio Management, CFC
- *Russ Wasson*, Executive Director, Tax, Finance & Accounting Policy, NRECA

**"Financial Markets' View of Electric Cooperatives and the Electric Utility Industry"**

- *Richard Eisenberg*, Vice President–Capital Market Relations, CFC
- *Peter Madonia*, Managing Director, Debt Capital Markets, JP Morgan
- *Alan Spen*, Managing Director, Corporate Finance, Fitch Ratings

**"Hot Legal Issues for Electric Cooperatives"**

- *Roberta Aronson*, Deputy General Counsel, CFC
- *Terence Brady*, Assistant General Counsel for Rural Utilities, U.S. Department of Agriculture
- *Kent Singer*, General Counsel to Tri-State G&T Association, CO

4:15-4:30 p.m.  
Break/Product Showcase

4:30-5:30 p.m.

**"Succession Planning Is Essential at Every Cooperative"**

- *Kent Farmer*, President & CEO, Rappahannock EC, VA
- *Charles Gill*, former Governor and CEO, CFC
- *Winston Tan*, Principal, Human Capital & Rewards Practice, Cooperative Benefits & Finance Services, LLC
- Moderator: *Wade Hensel*, General Manager, BENCO EC and Brown County REC, MN



*Kent Farmer*



*Chuck Gill*



*Winston Tan*



*Wade Hensel*



5:30-5:35 p.m.

**"Changing Times and Changing Opportunities"**

The National The National Cooperative Services Corporation (NCSC) exists only because—over time—electric cooperatives' needs and opportunities change.

**Mitchell Johnson**, NCSC Board President and CEO, Ozarks Electric Cooperative Corporation, AR



6-7:30 p.m.

**Reception to Celebrate "The Challenge of Change"  
Grand Patio Area of Hotel Bellagio — Sponsored by NCSC**

As a CFC affiliate, NCSC's mission is to provide specialized financing and related services to benefit electric cooperatives and their partners. NCSC's Board of Directors is comprised 100 percent of electric cooperative CEOs and directors. More than 350 electric cooperatives are NCSC member-owners. NCSC's products and value-added services include consumer-focused products such as EC Home Improvement and the Co-op Power Plus VISA credit card, in addition to specialized financing for electric cooperatives and their subsidiaries and partners. Please join NCSC in enjoying the spirit of cooperative friendship and the live blues-rock sound of Eat @ Joes Band, which features NRECA's Russ Wasson.



*Drew*



*Charles*



*Russ*



*Joe*

**Tuesday, June 20**



**Presiding: Terry Jacobs, CFC Vice President**

Tuesday's General Sessions will focus on changes in the U.S. and global economies and the most powerful forces driving change in the world today. We will present both a list of specific key actions and underlying principles for co-op success in today's changing environment.

7 a.m.-5 p.m.

**Registration and Product Showcase**



7-8 a.m.

**Continental Breakfast**



8-9 a.m.

**"The Changing U.S. Economy—Strengths, Weaknesses and Insights into the Forces Driving our Economic Direction"**

*Jeremy Siegel*, Professor of Finance, Wharton School of Business

9-9:30 a.m.

**Break and Product Showcase**

9:30-11 a.m.

**Breakout Sessions**

**"Leadership in the Real World"** (*repeats Tuesday afternoon*)

Pragmatic solutions to the problems leaders at all levels face today. How to refocus on what matters most. Why "tough management" produces results.

*Chuck Martin*, Author of *Tough Management*

**"New Frontiers that Change Everything"** (*repeats Tuesday afternoon*)

Economics, demographics and technology are all converging in such a way that the next 10 years will be unlike any in human history. Five trends are changing society and providing more opportunities than ever before. For those willing to rise to the challenge of the five trends, the rewards will be boundless.

*Lowell Catlett*, Futurist and Technological Visionary, Professor of Agricultural Economics and Agricultural Business, New Mexico State University

**"Key Financial Decisions for Boards"**

- *Tom Lewis, Ph.D.*, Professor of Accounting, Creighton University
- *Sherry Sharp*, Regional Vice President, CFC

**"How to Develop a Succession Plan for Your Cooperative"**

11-11:30 a.m.

**Break and Product Showcase**



**Presiding: Roger Arthur, CFC Secretary-Treasurer**



**11:30 a.m.-1:15 p.m.**

**Luncheon and Presentation:**

**"Changing Times—Lessons and Perspectives"**

*Governor John H. Sununu*, former Governor of New Hampshire, former Chief of Staff to the President of the United States

Governor Sununu shares his thoughts and insights on the most powerful forces driving change in the U.S. and global arenas and provides his views on what it takes to be a great leader.

**1:15-1:30 p.m.**

**Break and Product Showcase**

**1:30-3:00 p.m.**

**Breakout Sessions**

**"Leadership in the Real World"**

Pragmatic solutions to the problems leaders at all levels face today. How to refocus on what matters most. Why "tough management" produces results.

*Chuck Martin*, Author of *Tough Management*

**"New Frontiers that Change Everything"**

Economics, demographics and technology are all converging in such a way that the next 10 years will be unlike any in human history. Five trends are changing society and providing more opportunities than ever before. For those willing to rise to the challenge of the five trends, the rewards will be boundless.

*Lowell Catlett*, Futurist and Technological Visionary, Professor of Agricultural Economics Agricultural Business, New Mexico State University

**"What a Director Needs to Know About Strategic & Business Planning"**

- *Tom Lewis, Ph.D.*, Professor of Accounting, Creighton University
- *Brian Stavish*, Regional Vice President, CFC

**"Optimal Management of Your Debt Portfolio"**

- *John Grant*, Senior Consultant—Finance Advisory Services, CFC
- *John List*, Senior Vice President, Member Services, & General Counsel, CFC

**3-3:30 p.m.**

**Break and Product Showcase**



**3:30-4 p.m.**  
**"Eight Keys For Electric Cooperatives' Success During Changing Times"**  
*Sheldon C. Petersen*, Governor & CEO, CFC



**4-5 p.m.**  
**"Principles for Success"**  
*Archie Manning*, Former NFL Star and Community Activist  
New Orleans Saints' star quarterback for more than 10 years, Manning was the NFL's MVP in 1978 and was voted Most Popular Saint in franchise history. He remains in the spotlight of the New Orleans community as a Saints analyst for WWL Radio and TV and as a spokesperson for several local businesses. As a tribute to his success, his name and number (8) were the first to be placed on the Wall of Champions at the Louisiana Superdome.

Mr. Manning will share the principles of success he used throughout his career. These principles can be used at your co-op.

**Wednesday, June 21**



**Presiding: Cletus Carter, CFC President**

Wednesday's General Sessions will focus on the changes in the energy markets that keep co-op leaders up at night. We'll end with a challenge to climb the heights to success.

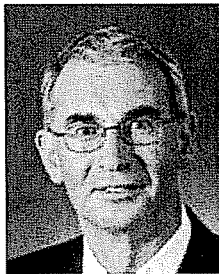
**7-10 a.m.**  
**Registration and Product Showcase**

**7-8 a.m.**  
**Continental Breakfast**

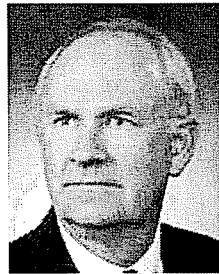
8-9 a.m.

**"The Changing and Challenging Energy Picture—  
What Keeps G&T Managers Up at Night?"**

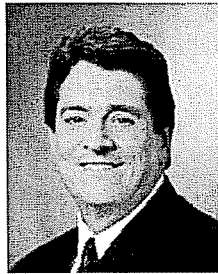
- *Tony Ahern*, President & CEO, Buckeye Power, Inc., OH
- *Dale Arends*, Executive Vice President & General Manager, Corn Belt Power Co-op, IA
- *Richard Midulla*, Executive Vice President/General Manager, Seminole Electric Co-op, FL
- *L. Earl Watkins, Jr.*, President & CEO, Sunflower Electric Power Corporation, KS
- Moderator: *Sheldon C. Petersen*, Governor & CEO, CFC



*Tony Ahern*



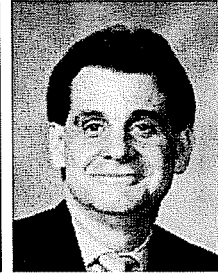
*Dale Arends*



*Richard Midulla*



*L. Earl Watkins, Jr.*



*Sheldon C. Petersen*

9-9:15 a.m.

**Break and Product Showcase**

9:15-10:45 a.m.

**Breakout Sessions**

**"Disaster Preparedness—Lessons from the Frontline"**

If a disaster strikes your service territory will you be prepared? Hear what these managers did when they were challenged with the forces of nature. What can you do to incorporate some of these lessons into your disaster plan?

- *Robert Occhi*, Executive Vice President & General Manager, Coast Electric Power Association, MS
- *Randy Pierce*, Executive Director, The Association of Louisiana Electric Cooperatives, LA
- *Audry Ricketts*, General Manager, South Dakota Rural Electric Association, SD

**"Positioning for the Future"**

This session will answer a question often asked of CFC staff..."What can a co-op do to position itself to be successful in the future?"

- *Dan Kessler*, Regional Vice President, CFC
- *Steve Kettler*, Regional Vice President, CFC

### **"New Technology Deployment at Electric Cooperatives"**

- *Russ Dantzer*, Manager of Engineering & Operations, Mid-Carolina Electric Co-op, SC
- *Bruce Griffin*, General Manager, Illinois Rural Electric Cooperative, IL
- *Martin E. Gordon*, Senior Program Manager, Cooperative Research Network (CRN), NRECA
- *Julius Hackett*, Manager of Engineering, Southside Electric Cooperative, VA
- *Doug Lambert*, SCADA/Engineering Data Supervisor, San Bernard Electric Co-op, TX
- Moderator: *Gary Harrison*, General Manager, Dixie Electric Cooperative, AL

### **"Electric Rate Issues"**

**10:45-11 a.m.**

**Break**



**11 a.m.-12 p.m.**

### **"Lessons from Everest – Qualities that Can Help Your Cooperative Climb the Heights, Regardless of the Changing Environment"**

*Alison Levine*, Mt. Everest Climber

Ms. Levine began climbing mountains just 18 months after her second heart surgery to repair a life-threatening heart condition. In between starting business school and starting a job on Wall Street, she "accidentally" climbed the highest peak on six continents. Drawing parallels between staying alive in the mountains and thriving in a fast-paced, changing business world, she will leave you with some great ideas to take back and use at your system.

**12 p.m.**

**Adjourn**

# 2006 DIRECTORS' CONFERENCE

## SCHEDULE AT-A-GLANCE

MARCH 25-26, 2006: Pre-Conference Training

Item 19 23 of 30

### Saturday, March 25

7:00 - 8:00 a.m.	Registration and Continental Breakfast
8:00 a.m. - Noon	Pre-Conference Training
Noon - 1:30 p.m.	Lunch on your own
1:30 - 4:00 p.m.	Pre-Conference Training
4:00 - 6:00 p.m.	Conference Registration Open

### Sunday, March 26

7:00 - 8:00 a.m.	Registration and Breakfast
8:00 a.m. - Noon	Pre-Conference Training
Noon - 1:30 p.m.	Lunch on your own
1:30 - 4:00 p.m.	Pre-Conference Training
4:00 - 6:00 p.m.	Conference Registration Open

### Monday, March 27

7:30 - 8:30 a.m.	Registration and Continental Breakfast
8:30 - 10:45 a.m.	General Session
10:45 a.m. - Noon	Breakout Sessions
Noon - 1:30 p.m.	Lunch on your own
1:30 - 2:45 p.m.	Breakout Sessions
3:00 - 4:00 p.m.	General Session
5:00 p.m.	Welcome Reception

### Tuesday, March 28

7:00 - 8:00 a.m.	Continental Breakfast
8:00 - 10:45 a.m.	General Session
10:45 a.m. - Noon	Breakout Sessions
Noon - 1:30 p.m.	Lunch on your own
1:30 - 2:45 p.m.	Breakout Sessions Repeat
3:00 - 4:00 p.m.	Face to Face with the Experts

### Wednesday, March 29

7:00 - 8:00 a.m.	Continental Breakfast
8:00 - 11:15 a.m.	General Session
11:15 a.m.	Closing Remarks

Attend the 2006 Directors' Conference and make the commitment to director training. The Directors' Conference focuses on key industry trends and how those issues play out in the electric cooperative board room. One of the many strengths of the electric program has always been informing our members and collaborating at the local, state and national level. Given increases in the global consumption of generation fuels and the pressures they place on the domestic power supply situation, it has never been more important to interact with industry experts and collaborate with directors from across the country. This year's conference will focus on key current issues including:

- The Role of the G&T Director
- Board Continuity Planning and Succession Management
- Transparency, Accountability and Ethics
- Trends in Director Compensation



# REFERENCE: Investing in your future

MARCH 27-29, 2006: Conference

Manchester Grand Hyatt • San Diego, CA

24 of 30

## Come Early for Training!

The Directors' Pre-Conference training is another valuable opportunity for directors to gain credits towards their Credentialed Cooperative Director (CCD) or Board Leadership certificates. The CCD certificate consists of five courses that will provide you with knowledge and skills required of cooperative directors. The CCD is earned by attending all five required courses and successfully completing a learning assessment for each. Join more than 3,500 people that have already made their commitment to invest in their future as cooperative directors.

The Board Leadership certificate consists of issue and skill based courses for directors. The certificate can be obtained after earning your CCD, with the completion of 10 additional credits from the 900 level courses.

## Saturday, March 25

- 7:00 – 8:00 a.m. Registration and Continental Breakfast
- 8:00 a.m. – Noon Pre-Conference Training
- Noon – 1:30 p.m. Lunch on your own
- 1:30 – 4:00 p.m. Pre-Conference Training Resumes

## Saturday Courses:

\*Attendees can take one course per day

2630.1



### Strategic Planning

(Revised 12/01/05)

Boards have ultimate responsibility for ensuring and evaluating the long-term health of the organization. They help fulfill this duty by identifying goals through strategic planning and by authorizing the appropriate allocation of resources through the adoption of financial policies and by budget review and approval. This course teaches directors how to participate effectively in a strategic planning process.

\$475

2640.1



### Financial Decision Making

(Revised 12/01/05)

This course is designed to help directors understand the role of the board in financial planning, including identifying the basic documents used in financial planning and reporting, assessing the issues that drive financial decisions, balancing competing goals, and taking responsibility to monitor and evaluate results.

\$475

923.1

### New and Emerging Technologies — What Every Director Needs to Know **NEW 2006**

The business of providing safe, reliable, and cost effective electrical service has never been more dependent upon technology. This course focuses on helping directors explore recent advancements in distribution system automation and information technology tools and how they help rural electric cooperatives deliver superior service to their member owners. Through case study and interactive discussion, this course explores advancements in automated meter reading, scada technologies, broadband over power lines, and other technologies to help directors stay informed and educated.

\$475



## Sunday, March 26

- 7:00 – 8:00 a.m. Registration and Continental Breakfast
- 8:00 – Noon Pre-Conference Training
- Noon – 1:30 p.m. Lunch on your own
- 1:30 – 4:00 p.m. Pre-Conference Training Resumes

## Sunday Courses:

\*Note you can only take one course per day

2610.1

### **CCD** Understanding the Electric Business

*(Revised 12/01/05)*

This course is designed to help directors understand that the electric utility industry is an evolving high-tech system that must be designed and engineered to meet regulatory and consumer standards for reliability, quality, and safety, which in turn requires an appropriate investment on a planned and on-going basis. This course provides directors with an understanding of the key components of the electric utility industry.

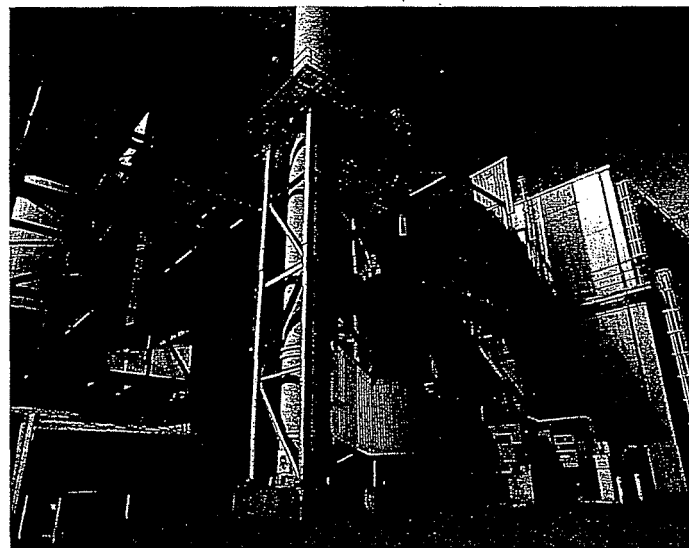
\$475

924.1

### Continuity Management and Emergency Response Planning for Directors **NEW 2006**

Cooperatives are consistently subjected to the ongoing challenges of providing continuous service to their membership in the face of natural and man-made disasters. Whether it's a hurricane, tornado, or employee sabotage, Directors play an increasingly important role in monitoring the activities of management to ensure that physical and IT assets are secure and safe. This course focuses on the fundamentals of disaster planning and recovery, showing how Directors can fulfill the responsibility they have to their members by ensuring the continuity of electrical and business operations.

\$475



914.1

### Managing Communications and Public Opinion – The Director's Perspective **NEW 2006**

Given the challenges of navigating through the evolving energy landscape, effective communications from the cooperative is an area of increasing importance. Whether it's communicating future rate increases or advertising your cooperative's participation in renewables, strong communication programs strengthen your identity with your consumers and build customer loyalty. This course guides participants as they explore the roles and responsibilities of directors with regards to communicating during a crisis or controversy and how to manage public opinion.

\$475

968.1

### Advanced Rate Decisions: For Experienced Directors

*(Available 02/01/05)*

*It is recommended that Directors taking this course have completed course 2640, Financial Decision Making.*

This course is designed to enable directors to discuss and understand the complex issues that must be balanced when the board considers equity management and alternative rate philosophies and strategies. Through a set of case studies and problem situations, attendees will analyze and discuss such issues as equity goals, long-range revenue requirements, achieving fairness for multiple rate classes, and dealing with proposed rate increases.

\$475



# Monday, March 27

7:30 – 8:30 a.m.

Registration and Continental Breakfast

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8:30 – 8:45 a.m.

Welcome and Overview

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8:45 – 9:15 a.m.

## Glenn English

Hear from NRECA's CEO, Glenn English to discuss the evolving domestic power supply environment and the importance of good governance and proactive communications with our members, given the possibility of future rate increases.

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9:15 – 10:15 a.m.

## Keynote Presentation

What are the forces shaping the electric utility industry? What are the implications for electric cooperatives? How does the role of the director take on even greater importance as a key architect of the cooperative's strategic priorities? Join us during this informative session as we discuss these and other key industry issues.

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10:15 – 10:45 a.m.

Break

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10:45 – Noon

## Breakout Sessions

### 1. Power Supply Choices and the Role of the G&T Director

This session probes the role of the distribution director as a G&T director. While keeping focused on the big picture, balancing individual interests will become increasingly important for G&T boards. Come to this session to consider key questions such as:

- Are directors instructed on how to vote?
- How do the G&T directors communicate back to the rest of the distribution system board?
- What is the importance of collaborative decision making?
- Do you have the financial and physical risk management expertise needed to ensure the successful operation of your G&T?

### 2. Rates Trends and Cost Dynamics

The utility industry is experiencing rapid changes from substantial increases in underlying costs. This session reviews the trends in utility costs and the causes. Discover some new and traditional remedies your co-op can adopt to maintain its financial strength in today's rapidly changing cost environment.

### 3. The Challenges of Selecting a New CEO

Deciding who will be your next CEO will likely be one of the most important decisions your board will ever make. This session will candidly explore the challenges boards face as they identify candidates, conduct interviews, evaluate options and select the next CEO of their cooperative.

### 4. Using Board Room Processes to Make Good Decisions

The responsibility that comes with being a director has never been more critical to the leadership and effectiveness of your cooperative. Given today's energy environment, human differences and expectations impact relationships and individual participation in the boardroom. This session explores the importance and value of the fundamentals of making motions, offering discussion, making amendments and voting to ensuring a healthy board room decision making process.

### 5. Building and Planning for the Continuity of the Board

As co-ops transition from directors who were there at the beginning to new directors who will guide the co-op into the future, boards must effectively manage the continuity and competency of the board. This session candidly examines trends in board composition, the techniques co-ops use to ensure director competency, and the subsequent challenges for cooperatives as they prepare for the election of new directors.

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Noon – 1:30 p.m.

Lunch

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1:30 – 2:45 p.m.

Breakouts (repeat)

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3:00 – 4:00 p.m.

## Carl Hurley – humorist

Be prepared to laugh! Humorist Carl Hurley, America's funniest professor, will delight you with his reflections on life as viewed by a native of Appalachia. He encourages all of us to look for the humor in life, and not take it too seriously. "Humor brightens the load, and makes life more interesting and enjoyable," says Carl.

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5:00 p.m.

Welcome Reception  
Sponsored by CFC



# Tuesday, March 28

7:00 – 8:00 a.m.

Continental Breakfast

8:00 – 8:15 a.m.

Day One Recap — Day Two Start

8:15 – 9:15 a.m.

## Trends Effecting the Energy Landscape — A Keynote Address

What are the key trends shaping the economic outlook? What are the opportunities for the Electric Cooperative Program given the domestic energy landscape? As leaders of America's electric cooperatives, you can benefit from the answers to these, and other, key questions. Come learn where your efforts fit into the broader economic picture, and discover how new technologies, globalization, and program initiatives are shaping the electric cooperative landscape.

9:15 – 9:30 a.m.

Break

9:30 – 10:30 a.m.

## Building a Healthy Board — CEO Relationship

*Monica Schmidt, Executive Director, National Consulting Group, NRECA*

Join Monica Schmidt and a panel of cooperative directors as they talk about the importance of building a healthy board and CEO relationship. This session will offer insights into how to effectively collaborate with your CEO on important issues that face your community and your co-op. Join this group for a lively talk on how to go about building and maintaining this important relationship.

10:45 a.m. – Noon

Breakouts

### 1. Transparency, Accountability and Ethics

In an environment of heightened scrutiny on governance, boards are rightfully asking for information disclosure and detailed explanation of management decisions. This session will focus on the fine line between governance and management and will uncover strategies to help you ensure that board bylaw and policy compliance contributes to a healthy board-CEO relationship.

### 2. All About Capital Credits

With ongoing changes in the demographic makeup of cooperative consumers and the importance of demonstrating the value of the cooperative form of business to today's members, capital credits continue to be a constant item of

discussion in board rooms. This session explores how board policies and strategies for capital credits are going to be affected by the current and future environment of rising costs. Specific focus will be placed on the ongoing discussion with regards to special retirements and discounting.

### 3. Director Fees and Expenses

With the renewed focus on corporate governance resulting from legislative and regulatory actions, the roles, responsibilities and potential liability of individual directors continues to be a topic of great discussion. As part of that discussion, focus continues to be placed on what is the most appropriate compensation for directors given the time and effort required and the legal risk they are exposed to. This session will explore trends in director compensation and how cooperatives are evaluating and determining compensation levels.

### 4. Staying on Message

Explore the fundamentals of effective communications and the role of the board in ensuring that the cooperative is proactively discussing industry changes with your membership. This session will focus on developing strategic communication messages to address challenges imposed by the new energy environment (rates, energy efficiency and renewables).

### 5. Computers for Dummies

It looks like computers are here to stay. As we strive to be more productive and efficient in our work as directors, computers and the Internet are becoming an increasingly useful tool. Come to a small, low-stress lab where you can learn some basic skills on the computer. This computer lab will walk a limited number of attendees through some useful tips and tricks to help you ENJOY computers and the Internet.

Noon – 1:30 p.m.

Lunch on your own

1:30 – 2:45 p.m.

Breakouts (repeat)

3:00 – 4:00 p.m.

## Face to Face with the Experts

Here is your chance to for a candid and open discussion with various speakers from the program about the challenges facing electric cooperatives and how those challenges are playing out in the board room.

## Wednesday, March 29

7:00 – 8:00 a.m.

Continental Breakfast

8:00 – 8:15 a.m.

Welcome to Day Two Review

8:15 – 9:30 a.m.

### Building Effective Communications with Elected Officials

In today's turbulent domestic power supply environment, every electric cooperative depends on decisions from local, state and federal political agencies. Harmonious relationships at each level are essential to a cooperative's success. This panel will be hosted by staff from NRECA's Government Relations Department. As part of an interactive panel discussion, this session will stress:

- Establishing formal political relationships and what that means;
- Planning a coordinated effort at the local, state and federal level. Haphazard efforts without a plan are like an orchestra playing without a musical score.
- Political planning in advance of a crisis and ensuring your cooperative the best chance at success.

9:30 – 10:00 a.m.

Break

10:00 – 11:00 a.m.

### The Power of Playing Together...

*Boris Brott – Guest Conductor of the Toronto Symphony*

This interactive presentation will leave you energized as you realize the power of what can happen when electric cooperatives play together. Our guest conductor will show us how everyone can play the same song together, regardless of the number of years you have been on the board, the amount of education you have received, or your individual professional background. Leveraging the musical talents of the audience, this session will illustrate for us all the joy of communication and the achievement of success.

11:00 – 11:15

Closing Remarks

## Travel & Accommodations

### Hotel:

**Manchester Grand Hyatt**  
One Market Place  
San Diego, CA 92101  
Phone: 619-232-1234  
Fax: 619-233-6464  
Rate: \$208 single/double  
Hotel Deadline: February 24

### Ground Transportation:

#### Taxi:

The average taxi fare ranges  
\$10–\$15 from the San Diego  
International Airport.

### Travel:

**United**  
800-521-4041  
Code 507UA  
7% discount on tickets  
purchased 30 days prior  
2% discount on tickets  
purchased within 29 days

#### Delta

800-241-6760  
Sky Bonus Code  
#US530116145

### Rental Car Programs:

**Avis**  
800-331-1600  
AWD #A403898  
Rate code M7-M9

# High<sub>adj</sub>

a: constituting the latest, most fully developed, or most creative stage or period

# Performance<sub>n</sub>

a: the fulfillment of a claim, promise or request

Item 19 29 of 30  
Consumers demand high performance – a promise that your goods and services are the latest and greatest available.

Is your business meeting this challenge?

Find out by attending Kentucky's Touchstone Energy Cooperatives' 2006 Energy Management Conference:  
HIGH PERFORMANCE .

We promise to bring you informative training opportunities and nationally known speakers to explain the latest, most effective changes and developments in building technology and energy efficiency.

HVAC contractors and registered builders can earn up to eight hours of continuing education credits to satisfy professional certification requirements at the low cost of \$75.


# HIGH PERFORMANCE

## 2006 ENERGY MANAGEMENT CONFERENCE

JANUARY 24TH & 25TH

NEW IDEAS, PRODUCTS & SERVICES AT KENTUCKY'S

PREMIER BUILDERS CONFERENCE

Kentucky's Touchstone Energy Cooperatives 

# Sponsored by Kentucky's Touchstone Energy Cooperatives:

Big Sandy RECC  
Paintsville, KY

Farmers RECC  
Glasgow, KY

Jackson Energy Cooperative  
McKee, KY

14 items / 19 30 of 3-  
Salt River Electric Cooperative  
Bardstown, KY

Blue Grass Energy Cooperative  
Nicholasville, KY

Fleming-Mason Energy Cooperative  
Flemingsburg, KY

Licking Valley RECC  
West Liberty, KY

Shelby Energy Cooperative  
Shelbyville, KY

Clark Energy Cooperative  
Winchester, KY

Grayson RECC  
Grayson, KY

Nolin RECC  
Elizabethtown, KY

South Kentucky Rural Electric  
Somerset, KY

Cumberland Valley Electric  
Gray, KY

Inter-County Energy Cooperative  
Danville, KY

Owen Electric Cooperative  
Owenton, KY

Taylor County RECC  
Campbellsville, KY

## PROGRAM

### Tuesday, January 24

8:30 a.m. Registration  
Breakfast in the Exhibit Hall

9:30 a.m. Welcome  
Roy Palk, President/CEO  
East Kentucky Power

10 a.m. Conference Overview  
Jeff Hohman,  
Marketing Manager  
East Kentucky Power

10:30 a.m. General Assembly  
"The Business  
Success Blueprint"  
George Hedley,  
Hardhat Presentations

11:30 a.m. Lunch in the Ballroom  
Exhibit Viewing

1:00 p.m. Concurrent Sessions

A. "Seal Air Leaks &  
Save Energy"  
Jeff Tiller,  
Southface Energy

B. "Qualifying a  
Touchstone  
Energy Home"  
Roy Honican,  
Blue Grass Energy

C. "Landscaping with  
Native Plants"  
Jeff Richmer,  
Dropseed Native  
Plant Nursery

D. "13 Seer – Changes &  
Challenges"  
Candy Weddington,  
Harshaw-Trane

E. "Lighting Solutions"  
Frank Gaudio,  
RAB Lighting

2:00 p.m. Repeat Concurrents ABCDE

3:00 p.m. Break with Exhibitors

3:30 p.m. Repeat Concurrents ABCDE

4:30 p.m. Adjourn

5:30 p.m. Reception with Exhibitors

6:00 p.m. Dinner

7:00 p.m. **UK vs. Auburn**  
**Big Screens!**  
**Free Throw Contest!**  
**Prizes!**

### Wednesday, January 25

7:30 a.m. Breakfast in the Ballroom  
Registration/ Exhibit Viewing

8:30 a.m. General Assembly  
"Integrity in Business"  
Bob Russell,  
Southeast Christian Church

9:30 a.m. Break with Exhibitors

10:00 a.m. Concurrent Sessions ABCDE

11:00 a.m. Repeat Concurrents ABCDE

12:00 p.m. Lunch  
"Surviving In Rural America"  
Rodger Bingham,  
(former Survivor,  
Kentucky Joe)  
Kentucky Department  
of Agriculture

**Grand Prizes Awarded**



Kentucky's  
Touchstone Energy  
Cooperatives®



Inter County Energy  
Case No. 2006-00415  
Second Data Request of Commission Staff

20. Refer to the Application, Exhibit 11, pages 3 through 7 of 11. Provide 3 sample copies of the print advertisements and the sample text of 3 of the radio advertisements.

Response

A copy of three print ads is attached to include safety and nondiscrimination.

The text for three radio advertisements is attached to include various safety sponsor advertisements.

**ADVERTISEMENT**  
**MERCER COUNTY PLANNING COMMITTEE**  
of the 1986 Federal Superfund  
Act (SARA) of 1986 (PL 99-499),  
provided in compliance with the  
requirements of the SARA Law, and the  
provisions of Kentucky Revised  
Statutes may contact the Mercer County  
Planning Committee, writing David C. Weber, chairman  
Planning Committee, P.O. Box 760,  
Danville, KY 40423, by telephone at (859) 734-  
3311. The Planning Committee conducts  
public hearings at the Circuit Court, 134 South Main Street,  
Danville, KY 40423, on occasions in accordance with the  
requirements of the public may request to  
attend meetings as provided in KRS 61.820  
Planning Committee, including the  
distribution of material, safety data sheets and  
evacuation notices as may be required for  
inspection and members of the  
public may do so from 9:00-12:00  
a.m. at the Committee's office in the  
building required by the Kentucky Open  
Records Act, telephone number for purposes of  
this Act by SARA, is 911 (859) 734-3311.

# THE WORTH OF PROTECTING

we can help protect our  
insurance needs and those of

ids  
row.

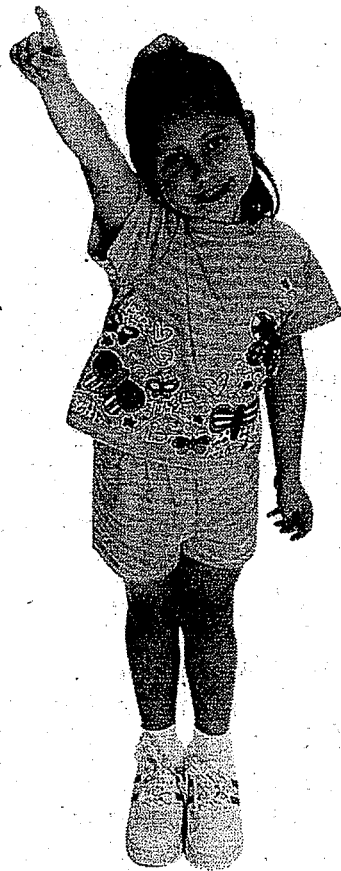
nds to this free video  
ons, please call or stop by.

ment representative today.

Call Perry Dressler  
Investment Representative  
216 S. Chiles St.  
Harrodsburg, KY 40330  
859-733-9327

**Edward Jones**

mce



## One More Reason Why We Care

*As your electric cooperative, we care about you  
and want to make sure you stay safe.  
Sometimes it's easy to forget some of the simple  
rules about electricity.*



### Remember:

- Don't plug too many things into one outlet.
  - Don't use electrical appliances, like  
radios and hair dryers, near water.
  - Don't use a higher wattage light bulb  
than recommended.

**INTER COUNTY**  
ENERGY COOPERATIVE

A Touchstone Energy Cooperative

1009 Hustonville Road  
P.O. Box 87  
Danville, KY 40423-0087  
859.236.4561 • Business  
859.236.3627 • Fax  
1.888.266.7322 • Toll-Free

Working with you to stay safe.

1 Jan 20  
2 of 7  
2006-415



Cataract Surgery  
 Comprehensive Eye Care Exams  
 Treatment for Glaucoma and  
 Diabetic Patients  
 Treatment and Surgery for Lazy Eye  
 Diseases and Surgery of the Eye

1/20/20  
 3 of 7



**Bluegrass Eye and Laser**

**Daniel A. Ewen, M.D., F.A.C.S.**

Ophthalmology Board Certified • International Society of Cataract and  
 Refractive Surgery • Fellow, American College of Surgeons

For your eye exam call

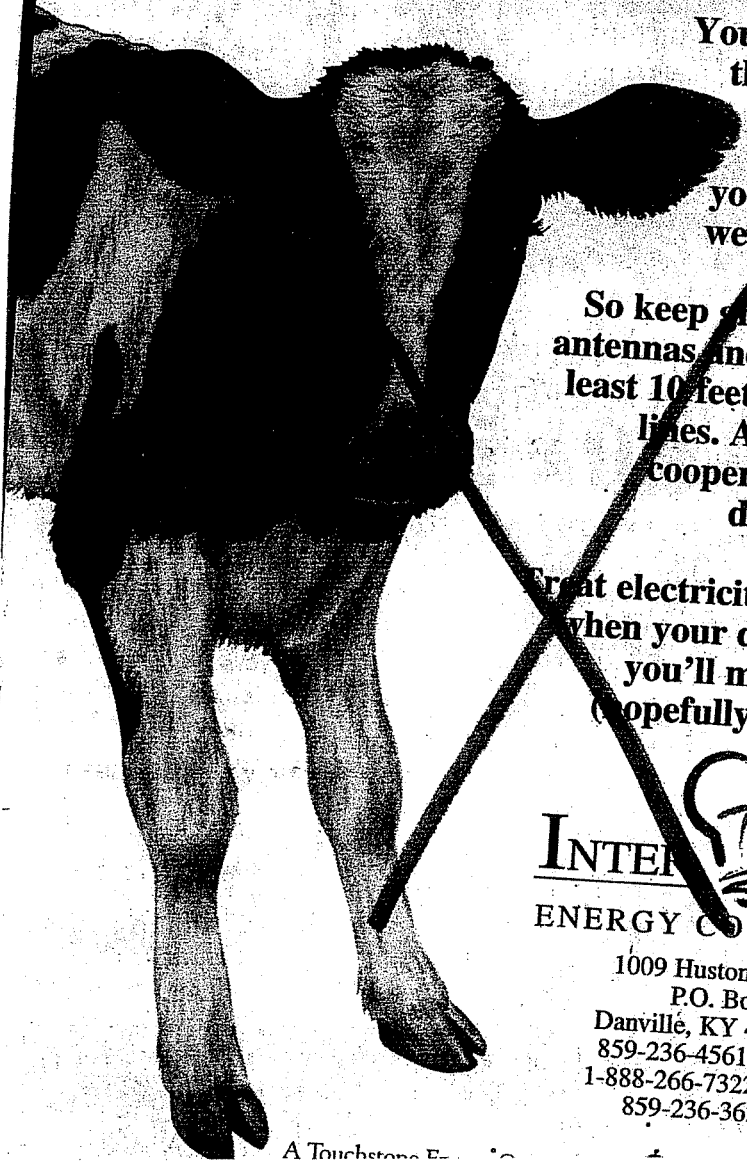
**859-986-0090**

[www.eweneye.com](http://www.eweneye.com)

Clinic Location **Berea Hospital**

† CATHOLIC HEALTH  
 INITIATIVES

**WHEN THE COWS COME HOME,  
MAKE SURE YOU DO, TOO.**



You've worked too hard  
 these past few months  
 to let an accident  
 with electricity stop  
 you from reaping your  
 well-deserved rewards.

So keep grain augers, ladders,  
 antennas and irrigation pipes at  
 least 10 feet away from electric  
 lines. And let your electric  
 cooperative deal with any  
 downed power lines.

Treat electricity with respect and  
 when your day's work is done,  
 you'll make it home safely  
 (hopefully, before the cows).

**INTERCOUNTY**  
 ENERGY COOPERATIVE

1009 Hustonville Road  
 P.O. Box 87  
 Danville, KY 40423-0087  
 859-236-4561 • Business  
 1-888-266-7322 • Toll-Free  
 859-236-3627 • Fax

*Inter Co*

1 Jun 20  
4 of 7

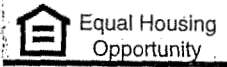
**115** Manufactured Home Sales

**NEED MANUFACTURED HOME INSURANCE?** Free quote by phone - **EDDIE GOFF**, licensed agent. EZ coverage can

is now accepting applications for one, two, three, four and five bedroom units. If you are interested contact the Authority at 101 Hamilton Heights, Lebanon, Ky. or phone **270-692-3481**.

Includes:

- Stove & refrigerator
- All utilities
- Private entrances
- Maintenance provided
- Convenient to downtown & shopping



**NEW 2 BEDROOM APARTMENT** - storage outback. Within minutes from Lebanon & Springfield country setting. refrigerator, stove & dishwasher finished, with washer dryer hookup. \$495 a month. all 859-805-0290

**BEDROOM APARTMENT** washer and dryer hook up. Call Slaughter Apartments (270) 62-6142 or (270) 402-1021

**BEDROOM APARTMENT** with appliances furnished, in Metro area. \$375 month, \$75 deposit. 1 year lease. 70-865-2781 or 270-865-4107

**8th N. DEPOT ST.** - 1 block to hospital. 2 bedroom, newly renovated, \$465 per month. Please call Cecil 502-500-6136 Ray at 812-987-7212.

**23** Commercial Rent/Lease

**RETAIL/OFFICE SPACES** - 50 sq. ft. & 1800 sq. ft. Both ave main st. frontage. 221 W. Main St. Call Kenneth George office (270) 692-6112.

**NOW OPEN**

**Mini Warehouses**

All Sizes  
500 E. Main St.,  
Lebanon, Ky.  
Behind Wholesale House  
270-692-3143  
270-692-6660  
nights

Buy, sell, trade in...

**125** Real Estate Rentals

**2 BEDROOM HOUSE** - For rent in Lebanon. Full basement. 502-348-8688.

**2 BEDROOM HOUSE**: Stove is in violation of the law. Our readers are hereby informed that all dwellings advertised in this newspaper are available on an equal opportunity basis. To complain of discrimination, call HUD toll free at 1-800-669-9777. The toll free telephone number for the hearing impaired is 1-800-927-9275. Equal Housing Opportunity.



**TN - SWAN RIDGE** Lake Resort on Dale Hollow Lake, a private, gated community. Enjoy the best of both worlds... Lake-view and Mountain view homesites. (931)243-4871 www.swanridgedevelopment.com

**PRE-GRAND OPENING** Kentucky Lake 2+ ac- \$39,900 w/free boat slip! SAVE \$5,000 & enjoy NO closing costs! May 20 & 21 ONLY! Rare opportunity to own land on Kentucky Lake! Mature oak & hickory in park-like setting w/lake access. Paved rd. u/g utils. Prime waterfronts avail. Call now for priority app't 1-800-704-3154 x23.

**\$10,000 OFF** Memorial weekend only May 27th & 28th. Incredible waterfront values in the Tennessee Smokies. Call for details (800)559-3095 ext. 79. Make your appointment now!

**HOME LOANS** - \$0 down! Low % rates. All credit types! Call Darrell at 1-800-681-1904.

Whether you're buying or selling a home, You need not do it *alone*.



**TRAVIS GREENWELL**  
270-699-6460

Pick up the phone, give me a call, I'll help you with it all.

SK Realty and Bobby Brady Auctions

**Toll Free: 877-336-6001**



**300** Legal Notices

**PUBLIC NOTICE**  
The Marion County Board of Elections will be inspecting the voting Equal Employment/Educational Opportunities

**INTER COUNTY ENERGY COOPERATIVE**

A Touchstone Energy Cooperative

**Statement of Nondiscrimination**

Inter-County Energy Cooperative Corporation is the recipient of Federal financial assistance from the Rural Utilities Service, an agency of the U.S. Department of Agriculture, and is subject to the provisions of Title VI of the Civil Rights Act of 1964, as amended, Section 504 of the Rehabilitation Act of 1973, as amended, the Age Discrimination Act of 1975, as amended, and the rules and regulations of the U.S. Department of Agriculture which provide that no person in the United States on the basis of race, color, national origin, age, or disability shall be excluded from participation in, admission or access to, denied the benefits of, or otherwise be subjected to discrimination under any of this organization's programs or activities.

The person responsible for coordinating this organization's nondiscrimination compliance efforts is James L. Jacobus, President/CEO. Any individual, or specific class of individuals, who feels that this organization has subjected them to discrimination may obtain further information about the statutes and regulations listed above from and/or file a written complaint with this organization; or the Administrator, Rural Utilities Service, Stop 1510, 1400 Independence Avenue, SW, Washington, DC, 20250-1510; or the Director, Office of Civil Rights, Room 326-W, Whitten Building, 1400 Independence Avenue, SW, Washington, DC 20250-9410; or call (202) 720-5964 (voice or TDD). USDA is an equal opportunity provider and employer. Complaints must be filed within 180 days after the alleged discrimination. Confidentiality will be maintained to the extent possible.

**CLASSIFIEDS**



## 2005 Winter Radio Commercials

**Title:** Space Heater Safety

**Time:** :30

Portable space heaters are great for knocking the chill off of winter's frosty days. If you're in the market for a new space heater, the good folks at your local electric cooperative remind you to look for these safety features:

- \* a tip over switch that shuts off the unit if it's knocked over,
- \* an overheating sensor that turns off the heater if it gets too hot,
- \* and a low surface temperature to protect you and your family from burns.

We're Kentucky's electric cooperatives, and *Our Power is Our People.*



# 2005 Winter Radio Commercials

Title: Winter's Here!

Time: :30

Winter's here! And along with winter come snow and freezing rain and the possibility of downed power lines.

If you encounter a downed power line this winter, here's what you should do:

- \* First of all, stay away! Just because it's down on the ground doesn't mean the power line is dead.
- \* Then call your local electric cooperative to report the problem.

We're Kentucky's electric cooperatives, and *Our Power is Our People.*



## 2005 Winter Radio Commercials

**Title:** Make the Most of It

**Time:** :30

Staying warm on cold winter days doesn't have to be expensive. Here's some advice from the good folks at your local electric cooperative on making the most of your heating dollars:

- \* Keep the windows near your thermostat tightly closed.
- \* Keep draperies and shades open in sunny windows to let heat in. Close those drapes at night to retain that heat.
- \* And don't forget to wear layers of loose warm clothing. It's still the cheapest heat around!

We're Kentucky's electric cooperatives, and *Our Power is Our People.*



Inter County Energy  
Case No. 2006-00415  
Second Data Request of Commission Staff

21. Refer to the Application, Exhibit 11, pages 9 and 10 of 11. For the following transactions, explain if it is recurring and why it should be included for rate-making purposes.

a. Line 12 - Shelves and frames

Inter County will continue to need shelves and have items to frame. Either shelves or bookcases will be required to continue to file work.

b. Line 16 - Portrait for office

Inter County has always framed current and retired directors. This is part of the board room.

c. Line 18 - Wellness room

Insurance rates are in part determined by wellness programs that Inter County has in place. This is a program that will continue into the future.

d. Line 21 - Lobby display

This lobby display probably will not be recurring, however, Inter County continually changes its lobby based on current events that are occurring in the electric industry, ETS, conservation programs it is involved in, and others.

e. Line 22 - Transformer for lobby display

This lobby display will not be recurring.

f. Line 25 - Furniture for break room

Inter County replaces furniture, chairs, and other items when they deteriorate. Inter County expects this to be a recurring expense.

g. Line 29 - Meeting room sound equipment

This is not expected to be recurring, however, when equipment gets old and obsolete, it will require replacement.

h. Line 34 - Bath supplies

As long as employees and customers use the bathroom, this will be a recurring item.

i. Line 40 - Driving records

Inter County obtains the driving records of employees to ensure they do not have a record that would effect the insurability of employees and future employees.

j. Line 44 - Flags for office

Inter County will replace the flags as they wear out.

k. Line 48 - Flag for Lebanon office

Inter County will replace the flags as they wear out.

l. Line 52 - Dues

Inter County participates on an annual basis. This helps keep Inter County compliant and updated on laws effecting the electric industry

m. Line 53 - Dues

Inter County participates on an annual basis. This helps keep Inter County updated on safety issues effecting the electric industry.

n. Line 54 - Programming changes

As the industry changes, and information is required, there will be programming changes required.

o. Line 63 - Annual dues

Should have been removed.





Inter County Energy  
Case No. 2006-00415  
Second Data Request of Commission Staff

22. Refer to the Application, Exhibit 11, page 10 and 11. Are any of the items that were individually less than \$100 related to Christmas gifts, Christmas activities, or the Washington Youth Tour? If yes, identify the amounts.

Response

Yes, the amounts are as follows:

Flowers	233
Candy for drive thru	296



Inter County Energy  
Case No. 2006-00415  
Second Data Request of Commission Staff

23. Refer to the Application, Exhibit 11, page 11 of 11.

a. Explain why annual meeting uniforms and shirt logo should be included for rate-making purposes.

All Inter County employees wore the same colored shirt with the Inter County logo for the purpose of identifying to the members that that person was an employee of Inter County to assist with the needs of the members. Since this was for the benefit of members at the annual meeting to identify Inter County employees, this should be included for rate making purposes.

b. Provide a sample copy of the print advertisement and sample text of the radio advertisements for the annual meeting.

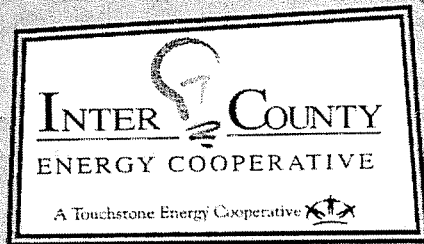
Copies are attached.

# 2006 ANNUAL MEETING

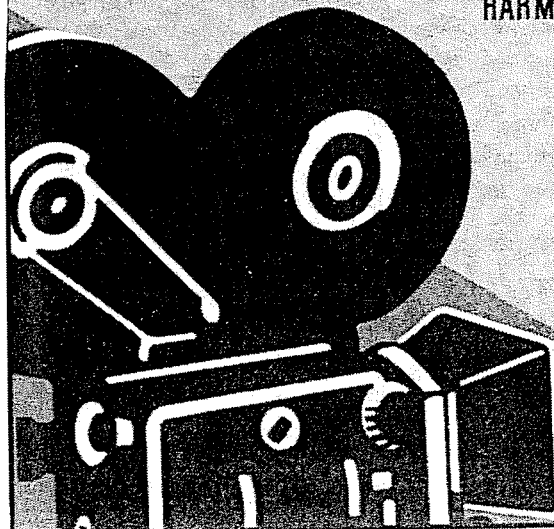
FEATURING JOHNNY COUNTERFIT



FREE FOOD  
PRIZES  
HEALTH FAIR  
SCHOLARSHIPS  
FREE BUCKET OF BULBS



AND CHILDREN'S ENTERTAINER  
HARMLESS T. JESTER



FRIDAY, MAY 12  
BOYLE COUNTY HIGH SCHOOL, DANVILLE  
REGISTRATION: 5 P.M.  
BUSINESS MEETING: 7 P.M.

## Press Release

1 Jan 23  
3 of 4

### For immediate release:

## INTER-COUNTY ENERGY GEARS UP FOR 2006 ANNUAL MEETING

Electrifying musical performers, inspiring speakers, informative programs – Inter-County Energy announced today that it expects the 2006 Annual Meeting to be one of the best ever when festivities commence on Friday, May 12th at 5 pm at Boyle County High School.

For entertainment, Johnny Counterfit will present a memorable show that features voice and singing impressions of some of the most famous singers and actors of yesterday and today, along with voices of politicians past and present, all packaged in a “clean comedy and music style” with a live band. His impressions are great and are not an exaggeration for comedic purposes; for comedy he adds jokes and humor as part of the show.

Who’s a bigger fool than a jester? Harmless T. Jester, that’s who! He’s the crazy guy who rides around on a giant parrot named Gonzo. He’s the man who considers eating a flaming torch to be a hot meal. He’s the one you’ll never forget. Whether juggling, telling jokes, or eating fire Harmless is always funny, everybody’s friend and guaranteed to leave ‘em laughing and asking for more.

In addition to hosting an evening chock-full of entertainment options, the event will also showcase a collection of booths and exhibits – and one of the most popular, literally crawls with anticipation.

“The biologists from Touchstone Energy have a great booth featuring Kentucky plants and animals, and they are passionate about protecting these natural treasures,” said Sheree Gilliam, Vice President of Customer Services at Inter-County Energy. “Kids love the booth because they are able to touch and hold salamanders and other reptiles.”

Green power will get some attention at this year’s event too. At the EnviroWatts booth, guests will get an opportunity to learn about the benefits of Touchstone Energy’s new renewable energy program.

“Electric cooperatives are on the cutting edge of innovation,” said Gilliam. “We are embracing green power, environmental education and much more.

Event attendees will be encouraged to visit the Touchstone Energy Living booth, where they can explore a series of programs dedicated to creating comfort and savings for Inter-County Energy members.

“Guests will be able to stop by our booth and pick up additional brochures, literature and contact information about any of our Touchstone Energy Living programs,” said Dan Hitchcock, Manager of Customer Services at Inter-County Energy. “We encourage our members to get involved with the Touchstone Energy Living programs because the member and the cooperative both save in the long-term.”

Each registering member at the meeting will receive a free bucket of compact fluorescent light bulbs as part of the co-op’s energy conservation efforts. Compared to an incandescent light bulb, the compact fluorescent, on average, will burn 10,000 hours longer and cost less.

Whether it’s a reptile demonstration or a live musical performance, the 2006 Inter-County Energy Annual Meeting will have something to both educate and entertain everyone in attendance.

For more information contact:

**Lori H. Statom, CSA**

**859.936.7821/1.888.266.7322**





Inter County Energy  
Case No. 2006-00415  
Second Data Request of Commission Staff

24. Refer to the Application, Exhibit 12. Provide an update of the current rate case expenses through January 31, 2007.

09/13-06	191695	Vickie Lay	17.72 Meals
11/17-06	192164	Visa	14.69 Meals
12/13-06	192489	Danville Office	446.82 Tabs and folders
01/16-06	192797	Visa	35.00 Meals
01/16-06	192797	Visa	10.00 Certificate of existence
01/16-06	192797	Visa	16.53 Postage
01/17-07	192925	Alan Zumstein	32,580.00 Consulting
01/05-07	192788	Vickie Lay	11.91 Meals
01/09-07	192868	James Adkins	7,300.00 Cost of service study
01/18-07	192955	Office Depot	11.12 Binders
02/01-07	193081	Visa	5,280.48 Advertising
02/01-07	193081	Visa	28.05 Meals
02/06-07	193081	Danville Office	232.97 Paper, binders, tabs
			<u>45,985.29</u>



Inter County Energy  
Case No. 2006-00415  
Second Data Request of Commission Staff

25. Refer to the Application, Exhibit 13. Does Inter County consider the loss on the office furniture and equipment to be a recurring event? Explain in detail why the loss should be included for rate-making purposes.

Response

Adjustment 13 of the Application was to remove all of the loss on the office furniture and building that was recognized during the test year. Two of the months that were amortized were prior to the test year. The amounts in the adjustment are all during the test year.

The amounts remaining in this account represents the gain or loss on the disposition of general plant items that have retired. Inter County will continue to retire general plant items, especially vehicles, and will continue to recognize a gain or loss on the retirement of these items.



Inter County Energy  
Case No. 2006-00415  
Second Data Request of Commission Staff

26. Concerning the PSC Assessment:

- a. Did Inter County include an adjustment to normalize the PSC Assessment?

Inter County overlooked this adjustment.

- b. Would Inter County agree that the normalization should be included and should reflect the current PSC Assessment? Explain the response.

Inter County agrees this adjustment should have been included.



Inter County Energy  
Case No. 2006-00415  
Second Data Request of Commission Staff

27. Refer to the Application, Exhibit D, page 2. Inter County proposes increases of 30 percent to 300 percent to its non-recurring charges. Explain whether Inter County has reviewed its procedures involved in accomplishing the services covered by its non-recurring charges and if so, whether Inter County is satisfied the services covered by the return check, meter reading and meter test charges are accomplished in the most efficient means possible.

Response

Inter County has reviewed each of these charges, and is of the opinion that each are performed using the most efficient means possible. Inter County has recognized that documentation is crucial to each of these activities to ensure that customers are treated fairly, and that Inter County is in compliance with all laws and regulations it is required to follow.

These charges have not been updated for over 25 years, which results in the percentages of increases as reflected in this Application.





Inter County Energy  
Case No. 2006-00415  
Second Data Request of Commission Staff

28. Refer to the Application, Exhibit J, pages 1 - 10. Provide electronic versions of the spreadsheets included in Exhibit J on CD-Rom or diskette.

Response

Attached is the diskette version.



**RESPONSE TO SECOND DATA REQUEST OF THE COMMISSION STAFF**

**REFERENCE**

- Q. Refer to the Application, Exhibit R, page 3 of 35. Explain the references to South Kentucky included in the last paragraph of the response.
  
- R. The reference should state "Inter County ". This mistake was not caught in the review.



**RESPONSE TO THE SECOND DATA REQUEST OF COMMISSION STAFF**

**COST OF SERVICE STUDY IN ELECTRONIC FORMAT**

- Q. Refer to the Application, Exhibit R, Schedules 1-11. Provide electronic versions of the spreadsheets included in Exhibit R on CD-ROM or diskette.
  
- R. Attached on CD-ROM is an electronic version of Exhibit R with Schedules 1-11.



**RESPONSE TO THE SECOND DATA REQUEST OF THE COMMISSION STAFF**

**INCREASE AMOUNT FOR LIGHTING RATES**

- Q. Refer to the application, Exhibit R, page 8, Inter-County proposes a 36.29 percent increase in Schedule 6, lighting rates.
- a. Explain whether Inter-County believes the requested increase in lighting rates is consistent with the principle of gradualism that been used by regulatory agencies to limit the increases granted to particular rate classes.
  - b. Explain whether Inter-County has received any inquiries concerning the magnitude of the increase proposed for it Schedule 6 lighting rates.
- R
- a. A 36.29 percent increase is certainly not a gradual change and does seem to be in opposition to the principle of gradualism. However, the results of the Cost of Service Study provides the basis for seeking such a large increase for one rate class. It also should be noted that if any one rate class does not provide revenue in amounts equal to the costs to serve that class, then other rate classes are probably providing a subsidy to this rate class.
  - b. Complaints have been raised by consumers in regards to the requested increase in rates for all classes for which an increase is being requested.





**RESPONSE TO THE SECOND DATA REQUEST OF THE COMMISSION STAFF**

**ALLOCATION OF CONSUMER RELATED COSTS**

- Q. Refer to the Application, Exhibit R, Schedule 11.
- a. Provide an explanation as to why there are 23,581 Farm and Home and Home Service Consumers in Part A. Lines (poles and conduit), part C. Services, part D Meters, and part E. Consumer and Accounting Services, but only 19,561 Farm and Home Services in part B Transformers.
  - b. Provide a discussion of the derivation of Minimum Transformer Cost and Relative Cost and the rationale for each derivation in Part B. Transformers.
  - c. Provide a discussion of the derivation of Minimum Service Cost and Relative Cost and the rationale of each derivation in part C. Services. Include in the discussion an explanation of how service is provided for cost to the Schedule 1-A-ETS, All Electric Schools, Schedule B-1 and Schedule C-1 Rate Classes.
  - d. Provide a discussion of the derivation of the Minimum Meter Cost and Relative Cost and the rationale for each derivation in part D. Meters. Also explain why Schedules B-1, C-1 and 6 have no minimum meter cost listed.
  - e. For Part E. Consumer and Accounting Services, provide an explanation of the se and derivation of Meter Reading Factor, Meter Reading Weight, Consume Records Factor, Consumer Records Weight, Consumer Assistance Factor and Consumer Assistance Weight.
  - f. For Part E, Consumer and Accounting Services, provide an explanation for the differences in Consumer Records Relative Weights calculated in the middle of the page and then used at the top of the page to calculate the allocation percentages.

**RESPONSE TO THE SECOND DATA REQUEST OF THE COMMISSION STAFF**

- R. a. Less consumers exists in part B. Transformers for the Farm & Home Service Class because more than one residential consumer may be served from a single transformer. This rate class averages about 1.2 consumers per transformer.
- b. The transformer costs listed for each rate class represents the minimum size transformer adequate for providing service to a minimum consumer for the class. The allocation of the consumer related expenses to the rate class is normally based on the number of customers by class with appropriate weightings and adjustments if needed. Weighting factors reflect differences in characteristics of consumers between classes. A transformer for a large industrial consumer is much more costly than for a residential consumer. The relative costs reflected in part B represents the ratio of costs on a relative scale based on the minimum size transformer costs for each rate class. The cost of a transformer for a residential customer is 8% of the cost for transformers for an all electric school. The weight is the product of the number of consumers multiplied by the relative cost. The allocation factors are proportional based on weight.
- c. The Minimum Services costs takes into consideration the cost to provide a service drop to a minimum size customer based on the average size service installed for that rate class. The minimum size service for each class is identified along with the cost to provide a service to an average length of services for that rate class. This relationship provides the relative cost to promise a minimum service between the rate classes. The relative cost multiplied by the number of customers provides the weight and becomes the basis for the allocation percentage.

Schedule 1-A-ETS, Schedules B-1, C-1 and 6 have no minimum service cost as the retail consumer bears the cost of the services. Therefore, no consumer related service costs for Inter County are allocated o these rate classes.

- d. The minimum size meter costs are identified for each rate class and a relative cost is developed for this part. The relative cost and the number of customers provide the basis for the weight and the resulting allocation percentage. This process is almost identical to the process identified and explained in the response to part b of this item.

Schedules B-1, C-1 and 6 have no meter costs as these meters are installed and paid for by East Kentucky Power Cooperative ("EKPC") as a part of its load research program conducted on behalf of all its distribution members.

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- e. The purpose of this section is to allocate the consumer related costs associated with consumer services and accounting to the individual rate classes on the basis of meter reading costs, consumer record costs and consumer assistance costs, The weighting of each class within the three elements of meter reading, consumer records and consumer assistance will be different for each element. For meter reading costs the basis is the information needed from the meter. For those rate classes with only energy to be read from the meter, the factor is one. And those with demand and energy, the factor is two. For consumer accounts and records, the weight is based on the number of items that need to be accounted from billing records. Listed below is the basis for each rate class:

	<u>Cons Only</u>	<u>Cons Charge</u>	<u>Energy Charge</u>	<u>Demand Charge</u>	<u>Total</u>
Sched 1 - Farm & Home	1	1	1	0	3
Schedule 1-A - ETS			1	0	1
Sched 2 - Sml Comm	1	1	1	2	5
Schedule 4 - Large Power	1	2	1	1	5
All Electric Schools	1	1	1		3
Schedule B-1	1	1	2	1	5
Schedule C-1	1	1	2	1	5
Sched 6 - Outdoor Lighting	0.5				0.5

For consumer assistance, the factor is based on the potential for a customer to seek some assistance from the Cooperative. Assuming that all customers have an equal probability to seek assistance, the factor assigned is a one for rate classes except ETS and Lighting. It is believed that ETS is covered in Schedule 1 since it is priced on an incremental basis and Lighting is given a factor of .25 on the basis that assistance for lighting is not sought that often and does not require a significant amount of time.

The weight is based on the relative cost of metering reading, consumer records and consumer assistance.



**RESPONSE TO THE SECOND DATA REQUEST OF THE COMMISSION STAFF**

**CONSUMER RELATED AND DEMAND RELATED COSTS FOR POLES**

- Q. Refer to the Application, Exhibit R, Schedule 9 page 23 of 35
- a. The percent Customer Related and Demand Related cost calculations do not seem to be tied in any way to the regression. Provide an explanation of why the regression was rejected.
  - b. The minimum size and the zero intercept methods are similar. Compare and contrast the two methods.
- R. a. The regression was rejected for the poles (Account 364) for one major reason. One significant reason is the fact that several sizes of pole are accounted as one group by Inter County making a reasonable conclusion less likely Poles now have only three groupings and this was considered too small of a number of observations on which to develop a proper regression.
- b. The zero intercept method is the preferred method over the minimum size method. It is preferable because the customer cost derived from the zero intercept method contains no demand cost whatsoever. In the minimum size method, some demand costs will be contained in the consumer related costs because all distribution equipment has some load carrying capability. In the situation for Inter-County, the zero intercept provided negative numbers.



**RESPONSE TO THE SECOND DATA REQUEST OF THE COMMISSION STAFF**

**DEMAND RELATED AND CONSUMER RELATED COSTS FOR CONDUCTOR**

- Q. Refer to the Application, Exhibit R, Schedule 9 page 24 of 35.
- a. There seems to be several types of wire that were not included in the regression. Provide an explanation of why these were excluded.
  - b. Provide an explanation of why the #6ACWC size wire was selected.
  - c. In calculating the Consumer and Demand Related costs and percentages, the predicted cost of \$0.07469 is used, as opposed to the actual unit cost of 0.0465. Provide an explanation of why this method was used when actual cost is used in calculations on the previous page 23 of 35
  - d. The regression coefficients negative, as it was in the regression for poles. Provide an explanation of the minimum actual price was not used to calculate the allocation factor, as it was for poles.
- R.
- a. Several types of wire were excluded because the investment amount in certain types of wire not considered significant enough.
  - b. #6 ACWC was the minimum size wire that Inter County has used as the minimum size conductor for their system. 1/0 AAAC is the minimum size conductor now being installed. The historical amount was selected because it much larger investment amount versus the 1/0 AAAC conductor.
  - c. As stated previously, the preferred method is the zero intercept. An alternative which has been utilized in this situation is the minimum intercept where the predicted value from the regression equation for the minimum size conductor is used.
  - d. A the minimum size intercept would have most probably been used for poles if poles were accounted for by size of pole and not in just three groups.





RESPONSE TO THE SECOND DATA REQUEST OF THE COMMISSION STAFF

- Q. Refer to the Application, Exhibit R, Schedule 9 pages 25 and 26 of 35.
- a. From page 25 of 35, it appears that one or more regressions were run, since there are predicted values for 23 different sized transformers and pads. Provide an explanation of hwy the regression equation on page 26 of 35 was selected and why it does not match the transformer data on page 25 of 35.
  - b. Provide a copy of the regression equations from which the predicted values listed on pages 25 of 35 were derived.
  - c. The graph on page 26 of 35 appears to show that the actual cost of 50 KVA transformers is \$1,200, yet the data on the previous page lists 254 units of 50 KVA transformers at a unit cost of \$983.86 and 54 units of 50 KVA transformers at a unit cost of \$1,101.39. Provide the data which supports the regression equation on page 26 of 35.
- R. a. The one regression listed is the only regression utilized in this Exhibit. The predicted values were calculated for 23 different transformer sizes. Only transformers with a KVA rating of 50 KVA or less were utilized. For transformers of 15 KVA or higher, a weighted average of the cost of this size transformers were utilized in the regression. Listed below are the data used to develop the regression used for transformers.

<u>Trans former KVA</u>	<u>Per Unit Cost</u>
1.50	52.71
5.00	139.74
10.00	413.60
15.00	584.89
25.00	709.18
37.50	524.43
50.00	1,195.61

- b. Only one regression was utilized in this study as stated above.

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- c. As stated in the response to part a of this Item, a weighted average was used to develop the per unit cost for certain transformers. For a 50 KVA transformers, listed below is the data used to derive the \$1,200 amount.

249,900	254	984
256,149	165	1,552
59,475	54	1,101
<u>565,524</u>	<u>473</u>	<u>1,195.61</u>



**RESPONSE TO THE SECOND DATA REQUEST OF THE COMMISSION STAFF**

**ALLOCATION FACTORS FOR NET INVESTMENT RATE BASE**

- Q. Refer to Application, Exhibit R, Schedule 8, page 22 of 35.
- a. The Customer and Demand allocation factors for accounts 364 - 367 do not seem to reflect the calculations from Schedule 9. Provide a reference to where the allocations factors were derived.
  - b. Should cell 3 containing the value 82,126,031 be blank? If not, provide an explanation of its derivation.
  - c. Provide an explanation for and the location of the derivation of the allocation factor for Total General Plant.
  - d. Provide an explanation of the derivation of the allocation factor used for Total Utility , Accumulated Depreciation, Net Plant, Cash Working Capital, Materials and Supplies, and Prepayments.
- R. a. The Customer and Demand allocations from Schedule 9 are utilized in the development of the distribution plant investment allocations. The allocation of general plant is based on the following. First, an initial allocation is made to consumer and accounting services based on the sum of the percentage for Consumer Accounts of about 33% and for Consumer Assistance of 12%. The remainder is allocated to the other rate base accounts proportional to the percentages listed below the Total Distribution Plant line.

Wages & Salaries	Total	Percent w/o Ad&Gen	Percent
Distribution Operations	625,560	0	625,560 41%
Distribution Maintenance	208,221	0	208,221 14%
Consumer Accounts	511,933	0	511,933 33%
Consumer Assistance	188,502	0	188,502 12%
Administrative & General	375,294	0	
Total	1,909,510	1	1,534,216 100%

Accumulated Depreciation is allocated proportional to the Total Utility Plant line.

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CWIP has been allocated proportional on the Total Distribution Plant line. Cash/Working Capital, Materials and Supplies, and Prepayments have been allocated proportional to the Net Utility Plant line.

- b. The value of 82,125,031 is the sum of CWIP plus Total Utility Plant and could be eliminated. It has been a part of the overall model and could have some use in another situation but it should have not been included for this situation.
- c. Please see the response to Part A of this item.
- d. Please see the response to Part A of this item.



**RESPONSE TO THE SECOND DATA REQUEST OF THE COMMISSION STAFF**

**CORRECTED COPY OF SCHEDULE 7 OF EXHIBIT R**

- Q. Refer to the Application, Exhibit R, Schedule 7 page 21 of 35. The schedule includes 3 columns in which some data is illegible. Provide a corrected copy of page 21 of 35.
- R Attached as pages 2 and 3 of this response is a corrected copy of Schedule 7 of Exhibit R. I sincerely apologize for the illegible data in the original submission.

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RESPONSE TO THE SECONDA DATA REQUEST OF THE COMMISSION STAFF

REVISED SCHEDULE 7 OF COST OF SERVICE STUDY

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Function	Classification	Schedule 1 Farm & Home Service Demand	Schedule 1-A Marketing ETS Demand	Schedule 2 Sml Comm & Sml Power Demand	Schedule 4 Large Power Demand	Consum.
Lines	Demand	25,977,171	-	483,275	1,505,399	
	Consumer	11,105,357	-	108,257	46,911	
Transformer	Demand	8,765,619	-	163,074	507,975	
	Consumer	2,248,065	-	25,560	26,340	
Services	Demand	-	-	-	232	
	Consumer	11,952,535	-	1,237		
Meters	Demand	-	-	-		
	Consumer	1,604,245	9,191	15,108	91,115	
Consumer Acct & Serv.		3,624,523	2,394	16,737	7,253	
Outdoor Lighting		2,343,018				
Street Lighting		-				
<b>Total</b>		<b>67,620,532</b>	<b>-</b>	<b>646,349</b>	<b>2,013,375</b>	<b>171,851</b>



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Function	Classification	Schedule 5 All Electric Schools Demand	Schedule B-1 Lrg Indust. 500-4999 kW Demand	Schedule IV-A Lrg Indust. 500-4999 kW Demand	Schedule VI Lighting Demand	Consum.
Lines	Demand	220,811	1,344,681	847,399	483,232	307,179
	Consumer	2,255	3,609	451		
Transformer	Demand	74,509	453,743	285,942	163,060	72,527
	Consumer	6,314	14,917	9,577		
Services	Demand	1				9,959
	Consumer				0	
Meters	Demand					-
	Consumer	4,381				
Consumer Acct & Ser		234	4,957		558	70
Outdoor Lighting						2,343,018
Street Lighting						
Total		295,320	1,798,424	1,133,341	646,292	2,732,753



**RESPONSE TO THE SECOND DATA REQUEST OF THE COMMISSION'S STAFF**

**FUNCTIONALIZATION AND CLASSIFICATION OF COSTS**

- Q. Refer to the Application, Exhibit R, Schedules 6 pages 19-20 of 35.
- a. For Account 555, provide an explanation of why \$5,321,946 is subtracted from the actual amount to obtain the Pro Forma Energy Charge.
  - b. For Account 580 - 598 on page 19 of 35, provide an explanation of how each of the allocation factors for each these accounts was derived.
  - c. For Account 403 on page 20 of 35, provide an explanation of why the same allocation factor was to allocate Distribution Plant and General Plant, when different allocation factors were derived in Schedule 8.
  - d. On page 20 of 35. provide an explanation of Margin Requirements and why it is identical to the Interest on Long Term Debt figures.
- R.
- a. The subtraction of \$5,321,946 represents the removal of all adjustment clause amounts so that the Pro Forma Energy Charge represents the amount paid during the test year for base rate energy.
  - b. Accounts 580 - 598 are in many cases directly assigned to a function and then classified as demand related or consumer related on the basis of the minimum, system concept and percentages established in Schedule 9 of this exhibit.
  - c. Since general plant exists to provide support to distribution plant, it seems reasonable to allocate the depreciation expense associated with general plant in the same manner or the same basis as distribution plant depreciation.
  - d. Margin requirements will equal the interest on Long Term Debt when a Times Interest Earned Ratio ("TIER") of 2.0X is used as the basis for determining margins. The TIER formula is provided below for further understanding.

$$\text{TIER} = (\text{Interest on LTD plus Net Margins}) \text{ divided by Interest on LTD.}$$



RESPONSE TO THE SECOND DATA REQUEST OF THE COMMISSION'S STAFF

ALLOCATION BASIS FOR SCHEDULE 5 OF EXHIBIT R

Q. Refer to the Application, Exhibit R, Schedule 5.

- a. For each line on page 13 of 15, identify the allocation factor and the location in the cost of service study where it may be found.
- b. Was peak day allocation factor used to allocate any costs? If so provide the location of its derivation in the cost of service study.

Allocation Basis

- R. a. 1 Purchased Power
  - 2 Generation Demand
  - 3 Generation Energy
  - 4 Transmission Demand
  - 5 Substation Demand
  - 6
  - 7 **Total Purchased Power**
  - 8
  - 9 Lines
  - 10 Distribution O&M Demand Related
  - 11 Distribution O&M Consumer Related
  - 12 Admin & Gen Demand Related
  - 13 Admin & Gen Consumer Related
  - 14 Deprec, Taxes & Misc Demand Related
  - 15 Deprec, Taxes & Misc Consumer Related
  - 16 Interest Demand Related
  - 17 Interest Customer Related
  - 18
  - 19 **Total Costs for Lines**
- Based on each class contribution to EKPC CP - Sched 10 Part B  
Proportional on retail energy sales - Sched 10 - Part A  
Same as for generation demand and based on EKPC's OATT  
Same as Generation Demand
- Proportional on the Peak Demand for Each Rate Class - Sched 10 - Part C  
Based on percentages in Sched 11 - Part A  
Sched 10 - Part C  
Based on percentages in Sched 11 - Part A  
Sched 10 - Part C  
Based on percentages in Sched 11 - Part A  
Sched 10 - Part C  
Based on percentages in Sched 11 - Part A

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Allocation Basis

20		
21	Margins Demand Related	Sched 10 - Part C
22	Margins Consumer Related	Based on percentages in Sched 11 - Part A
23		
24	Credits Demand Related	Sched 10 - Part C
25	Credits Consumer Related	Based on percentages in Sched 11 - Part A
26		
27	<b>Revenue Requirements-Lines</b>	
28		
29	<b><u>Transformers</u></b>	
30	Distribution O&M Demand Related	Sched 10 - Part C
31	Distribution O&M Consumer Related	Based on percentages in Sched 11 - Part B
32	Admin & Gen Demand Related	Sched 10 - Part C
33	Admin & Gen Consumer Related	Based on percentages in Sched 11 - Part B
34	Deprec, Taxes & Misc Demand Related	Sched 10 - Part C
35	Deprec, Taxes & Misc Consumer Related	Based on percentages in Sched 11 - Part B
36	Interest Demand Related	Sched 10 - Part C
37	Interest Customer Related	Based on percentages in Sched 11 - Part B
38		
39	Total Costs for Transformers	
40		
41	Margins Demand Related	Sched 10 - Part C
42	Margins Consumer Related	Based on percentages in Sched 11 - Part B
43		
44	Credits Demand Related	Sched 10 - Part C
45	Credits Consumer Related	Based on percentages in Sched 11 - Part B
46		
47	<b>Revenue Requirements-Transform.</b>	
48		

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Allocation Basis

49	<u>Services</u>	
50	Distribution O&M Consumer Related	Schedule 11 - Part C
51	Admin & Gen Consumer Related	Schedule 11 - Part C
52	Deprec, Taxes & Misc Consumer Related	Schedule 11 - Part C
53	Interest Customer Related	Schedule 11 - Part C
54		
55	Total Costs for Services	
56		
57	Margins Consumer Related	Schedule 11 - Part C
58		
59	Credits Consumer Related	Schedule 11 - Part C
60		

**Revenue Requirements-Services**

1	<u>Meters</u>	
2	Distribution O&M Consumer Related	Schedule 11 - Part D
3	Admin & Gen Consumer Related	Schedule 11 - Part D
4	Deprec, Taxes & Misc Consumer Related	Schedule 11 - Part D
5	Interest Customer Related	Schedule 11 - Part D
6		
7	Total Costs for Services	
8		
9	Margins Consumer Related	Schedule 11 - Part D
10		
11	Credits Consumer Related	Schedule 11 - Part D
12		

**Revenue Requirements-Meters**

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RESPONSE TO THE SECOND DATA REQUEST OF THE COMMISSION'S STAFF

Allocation Basis

14		
15	<u>Lighting</u>	
16	Outdoor Lighting O&M	Directly Assigned from Schedule 6
17	Street Lighting O&M	Directly Assigned from Schedule 7
18	Outdoor Lighting A&G	Directly Assigned from Schedule 8
19	Street Lighting A&G	Directly Assigned from Schedule 9
20	Outdoor Lighting Deprec & Misc	Directly Assigned from Schedule 10
21	Street Lighting Deprec & Misc	Directly Assigned from Schedule 11
22	Outdoor Lighting Interest	Directly Assigned from Schedule 12
23	Street Lighting Interest	Directly Assigned from Schedule 13
24		
25	Total Costs for Lights	
26		
27	Outdoor Lighting Margins	Directly Assigned from Schedule 6
28	Street Lighting Margins	Directly Assigned from Schedule 6
29		
30	Outdoor Lighting Revenue Credit	Directly Assigned from Schedule 6
31	Street Lighting Revenue Credit	Directly Assigned from Schedule 6
32		
33	<u>Revenue Requirements-Lighting</u>	
34		
35	<u>Consumer Accts &amp; Serv</u>	
36	Customer Accounts	Schedule 11 - Part E
37	Customer Service	Schedule 11 - Part E
38	Admin & General	Schedule 11 - Part E
39	Depreciation & Misc	Schedule 11 - Part E
40	Interest	Schedule 11 - Part E



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Allocation Basis

41		
42	Total Costs for Consumer Acctg & Service	
43		
44	Margins	Schedule 11 - Part E
45		
46	Revenue Credits	Schedule 11 - Part E
47		
48	Revenue Require. Cons. Act & Serv.	
49		
50		
51		
52	TOTAL COSTS	
53		
54	TOTAL REVENUE REQUIRE.	
55	MENTS FROM RATES	
56		
57	MARGINS PROVIDED	
58	RATE REVENUE	

b. Peak day information utilized to allocate costs deals with the allocation of purchased power demand related costs and are based on each rate class's contribution to EKPC's coincident peak demand.



Inter County Energy  
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Second Data Request of Commission Staff

40. Refer to the Application, Exhibit 15, page 3.

a. Reconcile the monthly fuel adjustment totals shown in the exhibit to the fuel adjustment clause calculations and the environmental surcharge pass through filed each month with the Commission by Inter County.

	<u>Exhibit 15, page 3</u>		<u>Filed with Commission</u>	
	<u>Fuel</u> <u>Adjustment</u>	<u>Environmental</u> <u>Surcharge</u>	<u>Fuel</u> <u>Adjustment</u>	<u>Environmental</u> <u>Surcharge</u>
August, 2005	147,287	109,506	145,026	97,981
September	198,108	101,072	224,632	98,510
October	339,453	178,287	366,986	197,608
November	434,225	190,592	411,593	183,915
December	456,778	250,027	323,601	176,579
January, 2006	276,755	237,477	339,319	203,623
February	430,941	136,249	452,378	108,543
March	322,985	160,622	405,814	152,689
April	213,515	147,642	252,436	170,626
May	219,905	132,737	222,868	177,518
June	280,181	153,641	256,423	174,243
July	302,350	192,699	264,662	192,000
	<u>3,622,483</u>	<u>1,990,551</u>	<u>3,665,738</u>	<u>1,933,835</u>

The fuel adjustment and environmental surcharge rates are calculated based on kwh sales and line loss. There are always differences related to line loss and billing adjustments. These are accounted for in the next months calculations for each element. The fuel adjustment through the (over) under recovery and the environmental surcharge through the 12 months ended average retail revenues, net.

b. Inter County states that the fuel purchased and environmental surcharge from East Kentucky Power Cooperative is passed on to the consumers using the fuel adjustment procedures established by the Commission. Explain the relevance of the fuel adjustment procedures to the environmental surcharge.

There is no relevance. This was an oversight only.

The wording should have stated "... is passed on to the consumers using the fuel adjustment procedures and pass through mechanism for environmental surcharge as established by the Commission".