



**JACKSON ENERGY  
COOPERATIVE**

115 Jackson Energy Lane  
McKee, Kentucky 40447  
Telephone (606) 364-1000 • Fax (606) 364-1007

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COMMISSION

January 17, 2008

Elizabeth O'Donnell  
Executive Director  
Kentucky Public Service Commission  
211 Sower Blvd.  
P. O. Box 615  
Frankfort, KY 40602

**RE: Case No. 2007-00333  
Second Data Request of Commission Staff to Jackson Energy Cooperative**

Dear Ms. O'Donnell:

Please find enclosed the original and ten (10) copies of the responses to the Commission's Order "Second Data Request of Commission Staff to Jackson Energy Cooperative" posted on January 4, 2008.

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

Sincerely,

A handwritten signature in cursive script, appearing to read "Donald Schaefer".

Donald Schaefer, P.E.  
President & CEO

Enclosure

c: Attorney General  
Utility & Rate Intervention Division  
1024 Capital Center Drive  
Frankfort, Kentucky 40601



Jackson Energy Cooperative  
Case No. 2007-00333  
Second Data Request of Commission Staff

1. Jackson Energy submitted its application for an increase in rates on rates on November 13, 2007 wherein it proposed a test year ending February 28, 2007. Explain in detail why Jackson Energy did not propose a test year that was more current than the proposed test year, which was 8.5 months old at the time the application was received.

**Response**

Jackson Energy was waiting on the results of its depreciation study for December 31, 2005, which was dated August 10, 2007. After the depreciation study was reviewed and discussed, it was incorporated into the application. Jackson Energy took some time to review the results before determining the rates to apply to the application.

The test year Jackson Energy selected corresponds to its audit date. There are numerous schedules that can be used from the audit and incorporated into the rate application.



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2. Paragraph 12(c) of Jackson Energy's application refers to its Times Interest Earned Ratios ("TIER") of 0.90 for its proposed test year and 0.74 for calendar year 2006. Provide Jackson Energy's income statements and TIERS for the 12-month periods ending June 30 and September 30, 2007 and, as soon as they are available, provide Jackson Energy's income statement and TIER for calendar year 2007.

**Response**

Attached.

Jackson Energy Cooperative  
Case No. 2007-00333  
Statement of Operations

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|                                | 12 months<br><u>June 2007</u> | 12 months<br><u>Sept 2007</u> |
|--------------------------------|-------------------------------|-------------------------------|
| Operating revenue              | <u>\$83,848,521</u>           | <u>\$86,102,153</u>           |
| Operating expenses:            |                               |                               |
| Cost of power                  | 56,640,522                    | 58,423,127                    |
| Distribution-operations        | 3,527,510                     | 3,549,515                     |
| Distribution-maintenance       | 4,229,312                     | 4,083,385                     |
| Consumer accounts              | 3,190,633                     | 3,130,474                     |
| Consumer service               | 452,871                       | 455,164                       |
| Sales                          | 0                             | 0                             |
| Administrative and general     | <u>3,226,667</u>              | <u>3,344,536</u>              |
|                                | <u>71,267,515</u>             | <u>72,986,201</u>             |
| Depreciation and amortization  | 7,080,675                     | 7,249,787                     |
| Taxes-other                    | 90,146                        | 90,146                        |
| Interest on long term debt     | 5,810,353                     | 5,923,251                     |
| Other interest expense         | 381,136                       | 361,912                       |
| Other deductions               | <u>103,611</u>                | <u>66,808</u>                 |
|                                | <u>84,733,436</u>             | <u>86,678,105</u>             |
| Utility operating margins      | <u>(884,915)</u>              | <u>(575,952)</u>              |
| Nonoperating margins, interest | 126,452                       | 128,343                       |
| Equity investments             | 30,438                        | 30,438                        |
| Nonoperating margins, other    | <u>(151,287)</u>              | <u>(110,968)</u>              |
|                                | <u>5,603</u>                  | <u>47,813</u>                 |
| Patronage capital:             |                               |                               |
| G & T                          | -                             | -                             |
| Others                         | <u>339,573</u>                | <u>351,900</u>                |
|                                | <u>339,573</u>                | <u>351,900</u>                |
| Net margins                    | <u>(\$539,739)</u>            | <u>(\$176,239)</u>            |
| TIER                           | 0.91                          | 0.97                          |



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**CONSOLIDATION OF TARIFFS**

- Q. Jackson Energy proposes to consolidate several tariffs, resulting in the elimination of several rate schedules. On page 4 of his testimony, James R. Adkins states that the reduction in rate schedules should make the billing process and record keeping easier and more manageable.
- a. Explain why Jackson Energy specifically chose Rate Schedules 1, 30, 33, 43 and 60 for elimination.
- b. If it were not proposing to eliminate them, explain whether Jackson Energy would propose to adhere to its cost-of-service study to set rates for these particular schedules.
- R. a. In Case No. 2000-373, the Commission, in its final order, stated that Jackson Energy should investigate eliminating or combining some of its tariffs. In compliance, Schedules 1, 30, 33, 43 and 60 were selected for elimination of combining for the following reasons.

Schedule 1 has been eliminated because this schedule has no members as of the end of the test year.

Schedules 30 and 33 were combined with Schedule 20 since these rate schedules contain customers of a similar size and load characteristics as Schedule 20. Also, Schedule 33 contains a small number of customers.

Schedule 43 has been combined with Schedule 40. Schedule 43 contained customers with demands in excess of 275kW while Schedule 40 contained customers with demands from 50 to 275kW. A decision was made that these two rate schedules would be good candidates for combining with the rate schedule and cover loads with demands greater than 50kW.

Schedule 60 has been combined because it covered churches, while Schedule 50 covered schools (not all electric), community halls and community parks. The customers for these two rate schedules have load characteristics very similar and the rate levels were almost identical.



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**CONSOLIDATION OF TARIFFS**

- b. Jackson Energy would have adhered to the results of its cost-of-service study to set rates if these rate schedules had not been eliminated.



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4. Refer to Exhibit J, pages 1-15, of the application. Provide electronic versions of the spreadsheets included in Exhibit J on CD-ROM or diskette.

**Response**

Attached is one (1) copy to Commission and one (1) copy to the Attorney General Office.



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5. Refer to Exhibit K, page 6 of 7, of the application. Explain whether Jackson Energy is currently in default of its RUS Mortgage requirements.

**Response**

Jackson Energy is currently not in default of its RUS Mortgage requirements. The status of the mortgage requirement will be determined when the books are closed for 2007.



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6. Refer to Exhibit N of the application. Do the 12 months ending in February represent Jackson Energy's fiscal year? If no, what 12-month period constitutes Jackson Energy's fiscal year.

**Response**

Jackson Energy closes its books and reports to RUS on a calendar year basis. The audit date is a fiscal year of February 28.





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**COST OF SERVICE STUDY IN ELECTRONIC FORM**

- Q. Refer to Exhibit R, Schedules 1-10 of the application. Provide electronic versions of the spreadsheets included in Exhibit R on CD-ROM or diskette.
- R. Attached is Exhibit R with all attached schedules in an electronic format.



**RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST**

**COST OF SERVICE STUDY METHODOLOGY**

- Q. Refer to Exhibit R of the application and the testimony of James R. Adkins. Explain whether there have been any changes in the methodology used in preparing the cost-of-service study from that used by Mr. Adkins in other recent cooperative rate cases in which he has been a witness sponsoring the utility's cost-of-service study. If there are any changes, identify and describe them in detail.
- R. There has been no change in the methodology used in preparing the cost-of-service study for this application with those prepared in other, recent cooperative cases.



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9. Explain whether Jackson Energy considered proposing adjustments to its non-recurring charges or its cable television pole attachment charges in this rate case.

**Response**

Jackson Energy reviewed both the non-recurring charges and cable television pole attachments and determined that they neither needed to be updated. These charges were updated in Jackson Energy's last rate case No. 2000.00373.



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10. Refer to page 2 of 4 of Exhibit S of the application. There appear to be some errors in the addition of expense amounts in the column headed "Normalization Adjustments" starting with line 29 where no adjustment for "Amortization" is shown, while the remaining columns indicate that an adjustment of (\$470,772) was intended.

a. Provide a revised Exhibit S, page 2 of 4, with the necessary corrections.

**Response**

Revised Exhibit S, page 2 of 4 is attached. A copy is also included with the amortization that was incorrectly removed and the addition corrected.

b. Explain why the amortization for the extraordinary property adjustment of \$470,772 was reduced to zero for the test year.

**Response**

This was done in error. The amortization should not have been removed. That is part of the reason for the error in addition.

c. Is Jackson Energy proposing to incorporate this amortization into its depreciation rates? If yes, explain why such an approach is consistent with the Commission's Order in Jackson Energy's previous rate case, Case No. 2000-00373.

**Response**

No. This was not intended to be part of the depreciation rates.

Jackson Energy Cooperative  
Case No. 2007-00333  
Statement of Operations, Adjusted

Exhibit S  
page 2 of 4

Witness: Jim Adkins

|                                | Actual<br><u>Test Year</u> | Normalized<br><u>Adjustments</u> | Normalized<br><u>Test Year</u> | Proposed<br><u>Increase</u> | Proposed<br><u>Test Year</u> |
|--------------------------------|----------------------------|----------------------------------|--------------------------------|-----------------------------|------------------------------|
| <b>Operating Revenues:</b>     |                            |                                  |                                |                             |                              |
| Base rates                     | \$68,238,835               | \$442,685                        | \$68,681,520                   | \$6,201,363                 | \$74,882,883                 |
| Fuel and surcharge             | 11,419,081                 | (11,419,081)                     | 0                              |                             | 0                            |
| Other electric revenue         | <u>1,762,102</u>           | <u>84,406</u>                    | <u>1,846,508</u>               |                             | <u>1,846,508</u>             |
|                                | <u>81,420,018</u>          | <u>(10,891,990)</u>              | <u>70,528,028</u>              | <u>6,201,363</u>            | <u>76,729,391</u>            |
| <b>Operating Expenses:</b>     |                            |                                  |                                |                             |                              |
| <b>Cost of power:</b>          |                            |                                  |                                |                             |                              |
| Base rates                     | 43,227,653                 | 22,750                           | 43,250,403                     |                             | 43,250,403                   |
| Fuel and surcharge             | 11,046,893                 | (11,046,893)                     | 0                              |                             | 0                            |
| Distribution - operations      | 3,710,004                  | 217,326                          | 3,927,330                      |                             | 3,927,330                    |
| Distribution - maintenance     | 4,551,005                  | 121,548                          | 4,672,553                      |                             | 4,672,553                    |
| Consumer accounts              | 3,236,171                  | 108,588                          | 3,344,759                      |                             | 3,344,759                    |
| Customer service               | 420,483                    | 24,032                           | 444,515                        |                             | 444,515                      |
| Sales                          | 0                          | 0                                | 0                              |                             | 0                            |
| Administrative and general     | <u>3,070,337</u>           | <u>50,758</u>                    | <u>3,121,095</u>               |                             | <u>3,121,095</u>             |
| Total operating expenses       | <u>69,262,546</u>          | <u>(10,501,891)</u>              | <u>58,760,655</u>              | <u>0</u>                    | <u>58,760,655</u>            |
| Depreciation                   | 6,389,695                  | 338,644                          | 6,728,339                      |                             | 6,728,339                    |
| Amortization                   | 470,772                    | (470,772)                        | 0                              |                             | 0                            |
| Taxes - other                  | 89,597                     | 0                                | 89,597                         |                             | 89,597                       |
| Interest on long-term debt     | 5,697,178                  | 47,074                           | 5,744,252                      |                             | 5,744,252                    |
| Interest expense - other       | 354,734                    | (130,503)                        | 224,231                        |                             | 224,231                      |
| Other deductions               | <u>64,588</u>              | <u>(64,588)</u>                  | <u>0</u>                       |                             | <u>0</u>                     |
| Total cost of electric service | <u>82,329,110</u>          | <u>(10,782,036)</u>              | <u>71,547,074</u>              | <u>0</u>                    | <u>71,547,074</u>            |
| Utility operating margins      | <u>(909,092)</u>           | <u>(109,954)</u>                 | <u>(1,019,046)</u>             | <u>6,201,363</u>            | <u>5,182,317</u>             |
| Nonoperating margins, interest | 124,504                    | 0                                | 124,504                        |                             | 124,504                      |
| Nonoperating margins, other    | (146,827)                  | 203,605                          | 56,778                         |                             | 56,778                       |
| Patronage capital credits      | <u>380,653</u>             | <u>0</u>                         | <u>380,653</u>                 |                             | <u>380,653</u>               |
| Net Margins                    | <u>(\$550,762)</u>         | <u>\$93,651</u>                  | <u>(\$457,111)</u>             | <u>\$6,201,363</u>          | <u>\$5,744,252</u>           |
| TIER                           | 0.90                       |                                  | 0.92                           |                             | 2.00                         |



Jackson Energy Cooperative  
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Statement of Operations, Adjusted

Item 10  
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Exhibit S  
page 2 of 4

Witness: Jim Adkins

|                                | Actual<br>Test Year | Normalized<br>Adjustments | Normalized<br>Test Year | Proposed<br>Increase | Proposed<br>Test Year |
|--------------------------------|---------------------|---------------------------|-------------------------|----------------------|-----------------------|
| <b>Operating Revenues:</b>     |                     |                           |                         |                      |                       |
| Base rates                     | \$68,238,835        | \$442,685                 | \$68,681,520            | \$6,672,135          | \$75,353,655          |
| Fuel and surcharge             | 11,419,081          | (11,419,081)              | 0                       |                      | 0                     |
| Other electric revenue         | <u>1,762,102</u>    | <u>84,406</u>             | <u>1,846,508</u>        |                      | <u>1,846,508</u>      |
|                                | <u>81,420,018</u>   | <u>(10,891,990)</u>       | <u>70,528,028</u>       | <u>6,672,135</u>     | <u>77,200,163</u>     |
| <b>Operating Expenses:</b>     |                     |                           |                         |                      |                       |
| <b>Cost of power:</b>          |                     |                           |                         |                      |                       |
| Base rates                     | 43,227,653          | 22,750                    | 43,250,403              |                      | 43,250,403            |
| Fuel and surcharge             | 11,046,893          | (11,046,893)              | 0                       |                      | 0                     |
| Distribution - operations      | 3,710,004           | 217,326                   | 3,927,330               |                      | 3,927,330             |
| Distribution - maintenance     | 4,551,005           | 121,548                   | 4,672,553               |                      | 4,672,553             |
| Consumer accounts              | 3,236,171           | 108,588                   | 3,344,759               |                      | 3,344,759             |
| Customer service               | 420,483             | 24,032                    | 444,515                 |                      | 444,515               |
| Sales                          | 0                   | 0                         | 0                       |                      | 0                     |
| Administrative and general     | <u>3,070,337</u>    | <u>50,758</u>             | <u>3,121,095</u>        |                      | <u>3,121,095</u>      |
| Total operating expenses       | <u>69,262,546</u>   | <u>(10,501,891)</u>       | <u>58,760,655</u>       | <u>0</u>             | <u>58,760,655</u>     |
| Depreciation                   | 6,389,695           | 338,644                   | 6,728,339               |                      | 6,728,339             |
| Amortization                   | 470,772             | 0                         | 470,772                 |                      | 470,772               |
| Taxes - other                  | 89,597              | 0                         | 89,597                  |                      | 89,597                |
| Interest on long-term debt     | 5,697,178           | 47,074                    | 5,744,252               |                      | 5,744,252             |
| Interest expense - other       | 354,734             | (130,503)                 | 224,231                 |                      | 224,231               |
| Other deductions               | <u>64,588</u>       | <u>(64,588)</u>           | <u>0</u>                |                      | <u>0</u>              |
| Total cost of electric service | <u>82,329,110</u>   | <u>(10,311,264)</u>       | <u>72,017,846</u>       | <u>0</u>             | <u>72,017,846</u>     |
| Utility operating margins      | <u>(909,092)</u>    | <u>(580,726)</u>          | <u>(1,489,818)</u>      | <u>6,672,135</u>     | <u>5,182,317</u>      |
| Nonoperating margins, interest | 124,504             | 0                         | 124,504                 |                      | 124,504               |
| Nonoperating margins, other    | (146,827)           | 203,605                   | 56,778                  |                      | 56,778                |
| Patronage capital credits      | <u>380,653</u>      | <u>0</u>                  | <u>380,653</u>          |                      | <u>380,653</u>        |
| Net Margins                    | <u>(\$550,762)</u>  | <u>(\$377,121)</u>        | <u>(\$927,883)</u>      | <u>\$6,672,135</u>   | <u>\$5,744,252</u>    |
| TIER                           | 0.90                |                           | 0.84                    |                      | 2.00                  |



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11. Refer to Exhibit V of the application which indicates that, for the 12 months immediately preceding the proposed test year, Jackson Energy had a TIER of 1.97 with net margins of \$4,455,832. Exhibit K indicates that, for calendar years 2004 and 2005, Jackson Energy had TIERS of 1.66 and 2.06, respectively. One reason for the differences in margins and TIERS between the proposed test year and the 12 months immediately prior to the test year is the level of interest on long-term debt. However, the \$1.1 million increase in interest expense accounts for only a fraction of the decrease in net margins and TIER in the proposed test year compared to the prior periods identified herein. The following requests attempt to identify other factors that might have contributed to the decline in Jackson Energy's margins and TIER levels.

a. Jackson Energy's revenues for the proposed test year declined by \$647,000 compared to the 12 months immediately preceding the test year while its purchased power cost for the proposed test year was \$1.7 million greater than in the prior period, according to Exhibit X of the application. Provide a side-by-side comparison of Jackson Energy's retail billing units, by rate schedule, for the two periods along with any relevant narrative explanation for why revenues declined by this amount.

**Response**

Attached.

b. Provide a side-by-side comparison of Jackson Energy's wholesale billing units, by rate schedule, as billed by its wholesale supplier, East Kentucky Power Cooperative, Inc. ("EKPC"), for the test period and the 12 months immediately preceding the test period along with any relevant narrative explanation for why purchased power expense increased as it did from the prior period to the proposed test period.

**Response**

Attached.

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| Rate Schedule                                    | Test Year |             | 12 months ending February 2006 |             |
|--|-----------|-------------|--------------------------------|-------------|
|  | Customer  | Kwh Usage   | Customer                       | Kwh Usage   |
| Schedule 01, Special Dual Fuel                   | 419       | 237,193     | 451                            | 285,039     |
| Schedule 10, Residential, Farm, and Non-Farm     | 551,848   | 653,047,178 | 549,457                        | 659,540,536 |
| Envirowatts                                      | 0         | 211,700     | 0                              | 9,819,254   |
| Schedule 11, ETS                                 | 0         | 9,511,607   | 33,535                         | 41,974,142  |
| Schedule 20, Commercial, Small Power and 3-Phase | 36,640    | 43,949,783  | 210,237                        | 210,237     |
| Schedule 22, ETS                                 | 0         | 256,688     | 2,808                          | 13,432,291  |
| Schedule 30, Large Power less than 50 KW         | 2,880     | 14,437,695  | 72                             | 2,055,678   |
| Schedule 33, Water Pumping                       | 72        | 1,914,172   | 1,823                          | 60,536,515  |
| Schedule 40, Large Power 50 KW to 274 KW         | 1,825     | 59,743,151  | 263                            | 32,713,840  |
| Schedule 43, Large Power 275KW and over          | 240       | 36,523,740  | 36                             | 44,367,300  |
| Schedule 46, Large Power 500 KW and over         | 36        | 41,430,000  | 53                             | 30,803,500  |
| Schedule 47, Large Power 500 LW to 4,999 KW      | 36        | 26,614,400  | 1,788                          | 4,745,582   |
| Schedule 50, School, Churches and Community Hal  | 1,871     | 4,781,005   | 235                            | 7,650,794   |
| Schedule 52, All Electric Schools                | 215       | 8,893,766   | 6,937                          | 7,641,624   |
| Schedule 60, School, Churches and Community Hal  | 6,983     | 7,512,759   |                                |             |
| Schedule OL, Street Lighting & Security Lights   |           | 19,610,566  |                                | 19,264,025  |
| Total from base rates                            |           | 928,675,403 |                                | 935,040,357 |

(6,364,954)

Change

**Jackson Energy Cooperative**  
**Case No. 2007-00333**  
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| Test year    | <-- Billing Demand --> |             | Schedule B/C<br>all Kwh | Total kwh billing<br>Schedule E --> |             | Green<br>Power | Total<br>kwh | Metering<-- Substation Charge --> |       |       |       |
|--------------|------------------------|-------------|-------------------------|-------------------------------------|-------------|----------------|--------------|-----------------------------------|-------|-------|-------|
|              | Sch B/C                | Schedule E2 |                         | On-Peak                             | Off-Peak    |                |              | Point                             | 2,373 | 2,855 | 4,605 |
| March, 2006  | 10,906                 | 187,528     | 5,463,097               | 35,360,864                          | 44,303,996  | 18,400         | 85,146,357   | 27                                | 3     | 21    | 3     |
| April        | 11,044                 | 134,004     | 5,326,943               | 26,086,370                          | 31,162,111  | 16,700         | 62,592,124   | 27                                | 3     | 21    | 3     |
| May          | 11,018                 | 149,451     | 5,655,876               | 33,400,251                          | 25,992,376  | 16,700         | 65,065,203   | 27                                | 3     | 21    | 3     |
| June         | 11,124                 | 161,343     | 5,920,810               | 39,136,511                          | 24,782,024  | 15,100         | 69,854,445   | 27                                | 3     | 21    | 3     |
| July         | 11,194                 | 170,181     | 5,931,886               | 48,433,890                          | 29,719,301  | 21,700         | 84,106,777   | 27                                | 3     | 21    | 3     |
| August       | 11,025                 | 173,453     | 6,417,568               | 48,497,146                          | 30,827,372  | 15,300         | 85,757,386   | 27                                | 3     | 21    | 3     |
| September    | 11,646                 | 109,802     | 5,907,698               | 31,650,702                          | 23,636,543  | 19,000         | 61,213,943   | 27                                | 3     | 20    | 4     |
| October      | 10,535                 | 159,455     | 5,491,659               | 30,040,708                          | 36,277,203  | 17,800         | 71,827,370   | 27                                | 3     | 19    | 5     |
| November     | 11,547                 | 187,725     | 5,563,104               | 34,633,304                          | 41,422,148  | 17,800         | 81,636,356   | 27                                | 3     | 19    | 5     |
| December     | 11,861                 | 246,249     | 5,593,895               | 41,631,691                          | 50,449,450  | 17,800         | 97,692,836   | 27                                | 3     | 19    | 5     |
| January, 200 | 11,697                 | 254,733     | 5,908,445               | 44,754,387                          | 55,106,895  | 18,100         | 105,787,827  | 27                                | 3     | 19    | 5     |
| February     | 11,671                 | 243,075     | 5,403,625               | 46,383,010                          | 59,176,038  | 17,400         | 110,980,073  | 27                                | 3     | 19    | 5     |
| Total        | 135,268                | 2,176,999   | 68,584,606              | 460,008,834                         | 452,855,457 | 211,800        | 981,660,697  | 324                               | 36    | 241   | 47    |

**12 months preceding test year**

| Test year    | <-- Billing Demand --> |             | Schedule B/C<br>all Kwh | Total kwh billing<br>Schedule E --> |             | Green<br>Power | Total<br>kwh | Metering<-- Substation Charge --> |       |       |       |
|--------------|------------------------|-------------|-------------------------|-------------------------------------|-------------|----------------|--------------|-----------------------------------|-------|-------|-------|
|              | Sch B/C                | Schedule E2 |                         | On-Peak                             | Off-Peak    |                |              | Point                             | 2,373 | 2,855 | 4,605 |
| March, 2005  | 11,541                 | 198,832     | 5,841,765               | 37,754,720                          | 47,735,409  | 6,400          | 91,338,294   | 27                                | 3     | 21    | 3     |
| April        | 11,159                 | 145,190     | 5,758,544               | 26,959,010                          | 32,808,983  | 6,200          | 65,532,737   | 27                                | 3     | 21    | 3     |
| May          | 11,341                 | 117,870     | 6,076,307               | 32,471,047                          | 26,076,467  | 6,200          | 64,630,021   | 27                                | 3     | 21    | 3     |
| June         | 11,667                 | 153,467     | 6,271,661               | 41,952,263                          | 26,095,822  | 10,100         | 74,329,846   | 27                                | 3     | 21    | 3     |
| July         | 13,438                 | 173,044     | 7,171,638               | 47,266,835                          | 29,799,199  | 11,400         | 84,249,072   | 27                                | 3     | 21    | 3     |
| August       | 13,535                 | 166,567     | 7,496,696               | 48,768,515                          | 30,135,309  | 11,400         | 86,411,920   | 27                                | 3     | 21    | 3     |
| September    | 13,141                 | 137,079     | 7,008,735               | 39,380,673                          | 24,375,952  | 10,700         | 70,776,060   | 27                                | 3     | 21    | 3     |
| October      | 12,878                 | 148,800     | 6,722,076               | 28,236,383                          | 33,732,512  | 12,900         | 68,703,871   | 27                                | 3     | 21    | 3     |
| November     | 13,036                 | 194,286     | 6,501,721               | 33,726,020                          | 40,391,955  | 12,900         | 80,632,596   | 27                                | 3     | 21    | 3     |
| December     | 13,503                 | 234,478     | 6,285,192               | 48,605,461                          | 60,379,373  | 17,100         | 115,287,126  | 27                                | 3     | 21    | 3     |
| January, 200 | 11,644                 | 199,361     | 5,822,624               | 39,918,413                          | 48,852,902  | 15,000         | 94,608,939   | 27                                | 3     | 21    | 3     |
| February     | 11,362                 | 223,513     | 5,176,205               | 40,029,284                          | 50,086,167  | 18,400         | 95,310,056   | 27                                | 3     | 21    | 3     |
| Total        | 148,245                | 2,092,487   | 76,133,164              | 465,068,624                         | 450,470,050 | 138,700        | 991,810,538  | 324                               | 36    | 252   | 36    |
| Change       | (12,977)               | 84,512      | (7,548,558)             | (5,059,790)                         | 2,385,407   | 73,100         | (10,149,841) | 0                                 | 0     | (11)  | 11    |

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

(1) Page 3 of 16 shows that Account 588.06, Mapping, increased by \$96,041, from \$184,300 to \$281,341, from the 12 months ending February 2006 to the proposed test period. Provide a detailed explanation for why this expense increased by this magnitude.

**Response**

The increase is the result of implementing a Global Positioning System ("GPS") and mapping project of the entire system starting February 2006. This was contracted and is expected to take approximately 4 years to complete. Expenditures for the test year will continue for this period.

(2) Page 3 of 16 also shows that Account 593.0, Maintenance of Overhead Lines, increased by \$183,037, from \$420,538 to \$603,575, from the 12 months ending February 2006 to the proposed test period. Provide a detailed explanation for why this expense increased by this magnitude.

**Response**

Expense increase due to changing coordination scheme which requires regulators and OCR's to be changed in the field. This will continue into the future.

(3) Page 3 of 16 also shows that Account 593.01, Maintenance of Lines - emergency, increased by \$153,855, from \$1,017,253 to \$1,171,108, from the 12 months ending February 2006 to the proposed test period. Provide a detailed explanation for why this expense increased by this magnitude.

**Response**

More outages during the test year.

(4) Page 4 of 16 shows that Account 593.18, right of way- Machine Trim, increased by \$372,998, from \$1,303,419 to \$1,676,417, from the 12 months ending February 2006 to the proposed test period. Provide a detailed explanation for why this expense increased by this magnitude.

**Response**

Increase right-of-way budget to clear more and get on a more current rotation for clearing the system. Added additional contractor crews to perform this work.

(5) page 5 of 16 shows that Account 903.00, Consumer Records and Collection, increased by \$82,253, from \$58,912 to \$141,165, from the 12 months ending February 2006 to the proposed test period. Provide a detailed explanation for why this expense increased by this magnitude.

**Response**

Increase expense to use lockbox service and increases from bank/billing charges for credit card payers.

(6) Page 13 of 16 shows that Account 427.32, Treasury Interest, increased from \$0.00 to \$349,557 from the 12 months ending February 2006 to the test period. Describe what is meant by "Treasury Interest" and provide a detailed explanation for why there was in expense of this magnitude during the proposed test period while there was no such expense in the prior period.

**Response**

This last RUS loan interest rate is based on the US Treasury rate. This is just a way to keep that interest separate from non-Treasury rate loans with RUS.





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12. Refer to Exhibit 1 of the application.

a. The narrative states that wage increases since 2006 have been granted on November 1. The wage increase for 2007, as shown on page 1 of 10, is 3.5 percent. Based on the narrative on page 1 of 10, this would imply the 2007 increase would be effective November 1, 2007. However, the wage normalization schedule indicates that the 3.5 percent wage increase was in effect as of March 1, 2007. Reconcile the apparent contradiction and indicate when the 3.5 percent increase became effective.

**Response**

Normally wage increases are granted on November 1. However, in an effort to reduce expenses, the wage increase that would have gone into effect on November 1, 2006 was delayed until March 1, 2007. Therefore, there were no increases in wage rates granted during 2006. The last increase before March 1, 2007 was on November 1, 2005.

b. Page 3 of 10 shows 4 salaried employees working less than 2,080 hours in the test year. For each employee, explain why it is reasonable to normalize the employee's salary using 2,080 hours.

**Response**

Employee #13 was on Family Medical Leave Act ("FMLA") and has since returned to work full time.

Employee #214 on FMLA and has since returned to work full time.

Employee #254 on FMLA and has since returned to work full time.

Employee #312 hired during the year as Right of Way Supervisor.

c. The 3-year schedule of executive officer compensation on page 7 of 10 indicates that several increases greater than 3.5 percent have been granted to executive officers. For each instance where the salary increase was greater than 3.5 percent, explain the basis for the level of increase granted.

**Response**

The Board of Directors evaluates the CEO and sets that compensation. The CEO evaluates each of the executive officers and determines their compensation based on their evaluation. The executive officers salary is based more on merit than on the wage and salary plan that all other employees are granted. Additional increases have all been based on added responsibilities and merit.

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The following is a list of employees added during the test year, and the employees that were replaced, or reason for hiring the employees.

| <u>Employee<br/>Hired</u> | <u>Reason</u>               |    |
|---------------------------|-----------------------------|----|
| 312                       | New position                |    |
| 299                       | Student worker to full-time |    |
| 313                       | Replaced number             | 34 |
| 314                       | New position                |    |

The following is a list of employees terminated, and the date.

| <u>Employee<br/>Number</u> | <u>Month<br/>Terminated</u> |
|----------------------------|-----------------------------|
| 12                         | 06/06                       |
| 20                         | 07/06                       |
| 34                         | 08/06                       |
| 196                        | 08/06                       |



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13. Refer to Exhibit 3 of the application, Item 38 of the response to the Commission Staff's ("Staff") initial data request, and pages 30-34 of the Commission's May 21, 2001 Order in Case No. 2000-00373.

a. Were the Gannett Fleming Companies ("Gannett") made aware of the conclusions stated in the Commission's final Order in Jackson Energy's last rate case? Describe how those conclusions affected the current depreciation study.

**Response**

Yes. Gannett performed the depreciation study in Jackson Energy's Case No. 2000-00373. Jackson Energy does not disagree with the methodology, assumptions, or results of the study performed by Gannett. In an effort to keep the amount of increase requested at a reasonable level, it was decided by Jackson Energy's management to use the average service life of assets and the "average net salvage allowance" to arrive at depreciation rates to use in this application.

b. Provide a schedule comparing the proposed depreciation rates with Jackson Energy's current depreciation rates established by the Rural Utilities Service ("RUS").

**Response**

|                           |                                 | Proposed<br>Rates | <u>RUS</u><br>Low | High  |
|---------------------------|---------------------------------|-------------------|-------------------|-------|
| <b>Distribution plant</b> |                                 |                   |                   |       |
| 362                       | Station equipment               | 6.67%             | 3.00%             | 4.00% |
| 364                       | Poles, towers & fixtures        | 3.45%             | 3.00%             | 4.00% |
| 365                       | Overhead conductors & devices   | 3.23%             | 2.30%             | 2.80% |
| 366                       | Underground conduit             | 2.00%             | 2.40%             | 2.90% |
| 367                       | Underground conductor & devices | 3.33%             | 2.40%             | 2.90% |
| 368                       | Line transformers               | 2.56%             | 2.60%             | 3.10% |
| 369                       | Services                        | 3.57%             | 3.10%             | 3.60% |
| 370                       | Meters                          | 4.17%             | 2.90%             | 3.40% |
| 370.1                     | Meters, AMR                     | 6.67%             | 2.90%             | 3.40% |
| 372                       | Security lights                 | 4.76%             | 3.90%             | 4.40% |
| 373                       | Street lights                   | 4.76%             | 3.90%             | 4.40% |

**General plant**

|     |                             |        |     |
|-----|-----------------------------|--------|-----|
| 390 | Structures and improvements | 1.98%  | n/a |
| 391 | Office furn and eqt         | 6.82%  |     |
| 391 | Office computer equip       | 6.82%  |     |
| 391 | Office furn and eqt         | 6.82%  |     |
| 391 | Office furn and eqt         | 6.82%  |     |
| 392 | Transportation              | 8.20%  |     |
| 392 | Transportation , other      | 11.72% |     |
| 393 | Stores                      | 5.00%  |     |
| 394 | Tools, shop and garage      | 5.00%  |     |
| 395 | Laboratory                  | 6.67%  |     |
| 396 | Power operated              | 9.53%  |     |
| 397 | Communications              | 10.00% |     |
| 398 | Miscellaneous               | 8.67%  |     |

RUS does not require depreciation studies to address general plant, therefore, no rates are proposed for general plant.

c. Will it be necessary for Jackson Energy to seek RUS authorization for the proposed depreciation rates? If yes, has authorization already been requested? Include any correspondence with the RUS concerning the proposed depreciation rates.

**Response**

RUS approval of depreciation rates will be requested. However, at this time, we are waiting for Commission approval of the methodology for service life and average net salvage so that the rates requested for approval from RUS will agree to the rates authorized by the Commission.

d. Explain whether Jackson Energy performed an analysis of whether to include net salvage as a component of its depreciation rates or to continue to use the "average net salvage allowance" approach proposed by the Office of Attorney General and adopted by the Commission in Case No. 2000-00373.

**Response**

Jackson Energy performed an analysis of net salvage and included the "average net salvage allowance" as proposed by the Attorney General and adopted by the Commission in Case No. 2000-00373 in its depreciation rates.

This study is shown at the bottom of Commission Staff's First Request, Item 38, page 9 of 9. This schedule shows the five year average of (\$762,697) calculated as a percentage for each plant account, then on page 8 of 9, this was added to the rate without the net salvage allowance. As a result, the rates proposed by Jackson Energy include the net salvage study and the "average net salvage allowance" as proposed by the Attorney General and adopted by the Commission.

e. Prepare and provide a schedule which shows the resulting annual depreciation expense using the "average net salvage approach" based on Jackson Energy's February 28, 2007 plant account balances.

**Response**

This is reflected in Commission Staff's First Request, Item 38 pages 8 and 9 of 9.



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14. Refer to Exhibit 4, page 6 of 6, of the application, the Analysis of Other Operating Taxes. The item shown on lines 27-31 is identified as the Public Service Commission (:PSC") assessment, but the PSC assessment is based on revenues, not property values, which is the basis for the assessment shown on lines 27-31.

a. Provide a revised page 6 of 6 which correctly identifies the item shown on lines 27-31.

**Response**

The title was incorrectly stated as "Public Service Commission Assessment" and should have been "Public Service Company Assessment", as this is paid to the Kentucky State Treasurer. A revised Item 4, page 6 of 6 is attached.

b. Explain why Jackson Energy has not proposed an adjustment for the PSC assessment based on its proposed rate increase of \$6.2 million and the current PSC assessment rate.

**Response**

This was an oversight only, Jackson Energy should have included the adjustment. The rate for the test year was as follows:

|                                       |            |
|---------------------------------------|------------|
| Assessable revenues December 31, 2006 | 52,840,673 |
| Amount paid, 2007                     | 90,416.19  |
| Rate                                  | 0.1711%    |
| Proposed revenue increase             | 6,201,363  |
| Proposed increase in assessment       | 10,611     |



"Revised"  
Exhibit 4  
page 4 of 4

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| Taxing District   | Assessment for 2006 Taxes |             |              | Assessment for 2005 Taxes |             |              | Increase<br>Decrease<br>in Taxes |
|---|---------------------------|-------------|--------------|---------------------------|-------------|--------------|----------------------------------|
|   | Assessed<br>Value         | Tax<br>Rate | Tax<br>Due   | Assessed<br>Value         | Tax<br>Rate | Tax<br>Due   |                                  |
| <b>Pulaski County</b>                                   |                           |             |              |                           |             |              |                                  |
| Tangible - County                                       | 2,397                     | 0.0530      | 1.27         | 2,303                     | 0.0530      | 1.22         | 0                                |
| Tangible - School                                       | 2,397                     | 0.4640      | 11.12        | 2,303                     | 0.4030      | 9.28         | 2                                |
| Tangible - Library                                      | 2,397                     | 0.0718      | 1.72         | 2,303                     | 0.0590      | 1.36         | 0                                |
| Tangible - Health                                       | 2,397                     | 0.0200      | 0.48         | 2,303                     | 0.0200      | 0.46         | 0                                |
| Tangible - Extension                                    | 2,397                     | 0.0120      | 0.29         | 2,303                     | 0.0120      | 0.28         | 0                                |
| <b>City of McKee</b>                                    |                           |             |              |                           |             |              |                                  |
| Real estate - City                                      |                           | 0.1600      | 0.00         |                           | 0.1600      | 0.00         | 0                                |
| Tangible - City   | 105,039                   | 0.1700      | 178.57       | 2,677,645                 | 0.1490      | 3,989.69     | (3,811)                          |
| <b>City of London</b>                                   |                           |             |              |                           |             |              |                                  |
| Real estate - City                                      | 751,554                   | 0.0960      | 721.49       | 750,730                   | 0.1000      | 750.73       | (29)                             |
| Tangible - City   | 455,537                   | 0.0960      | 437.32       | 458,646                   | 0.1076      | 493.50       | (56)                             |
| <b>City of Mt Vernon</b>                                |                           |             |              |                           |             |              |                                  |
| Tangible - City   | 59,068                    | 0.1670      | 98.64        | 58,006                    | 0.1740      | 100.93       | (2)                              |
| <b>Public Service <del>Commission</del> Assessment:</b> |                           |             |              |                           |             |              |                                  |
| Real Estate   | 5,942,370                 | 0.1280      | 7,606.23     | 5,879,662                 | 0.2100      | 12,347.29    | (4,741)                          |
| Tangible Property                                       | 99,772,670                | 0.4500      | 448,977.02   | 96,122,054                | 0.4500      | 432,549.24   | 16,428                           |
| Manufacturing Machine                                   | 18,046,023                | 0.1500      | 27,069.03    | 18,084,099                | 0.1500      | 27,126.15    | (57)                             |
| Subtotal  |                           |             | 485,103.18   |                           |             | 477,370.13   | 7,733.05                         |
| Total   |                           |             | 1,326,994.41 |                           |             | 1,229,600.25 | 97,394.16                        |
| Amount of Adjustment                                    |                           |             |              |                           |             |              | 97,394                           |



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15. Refer to Exhibit 5 of the application.

a. Describe the purpose of the short-term debt issue at the end of the proposed test year and explain how it was determined that the proposed revenue increase would be sufficient to allow Jackson Energy to repay approximately one-half of the short-term note payable.

**Response**

Short term debt is issued for payments related to expenses in the ordinary course of business, the purchase power bill, material and supplies, insurance's as they come due, and construction projects, when there is insufficient funds available. The short term debt is repaid from cash generated from operations and from advances of long term debt. Since the amount of short term debt is substantially the same as the revenue requested in this application (\$7.5 million short term debt and \$6.2 million rate request) it is estimated that the additional revenues will come in 1/12 each month and the short term debt is the full amount at the end of the test period. As such, it is estimated that it will take a full year to generate the funds to repay the short term debt. That is the reason the adjustment for short term interest was estimated at one-half.

Jackson Energy advanced \$8.2 million in May, 2007, and at December 31, 2007 there was \$6.9 million of short term borrowing. As can be seen, there continues to be short term borrowings even with the long term advances.

b. Provide an update of the schedule on page 2 of 4 that reflects the current interest rates for long-term debt applied to the long-term debt balances as of the end of the proposed test year.

**Response**

Attached.

| Jackson Energy Cooperative                                 |                            |                               |                              | Exhibit 5                     |                                     |  |  |
|--|----------------------------|-------------------------------|------------------------------|-------------------------------|-------------------------------------|--|--|
| Case No. 2007-00333  |                            |                               |                              | page 2 of 4                   |                                     |  |  |
| Schedule of Outstanding Long-Term Debt                     |                            |                               |                              | Format 8a                     |                                     |  |  |
| February 28, 2007  |                            |                               |                              | Schedule 2                    |                                     |  |  |
| Type<br>of<br>Debt Issued<br>(a)                           | Date<br>of<br>Issue<br>(b) | Date<br>of<br>Maturity<br>(c) | Outstanding<br>Amount<br>(d) | Test Year<br>Interest<br>Cost | Interest<br>Rate<br>12/31/07<br>(g) | Annualized<br>Cost<br>Col (d)x(g)<br>(j) |  |
| <b>RUS loans</b>   |                            |                               |                              |                               |                                     |  |  |
| B260   | Jun-72                     | Jun-2007                      | 7,538                        | 468                           | 2.000%                              | 151                                      |  |
| B580   | Jan-94                     | Jan-2029                      | 658,844                      | 33,352                        | 5.000%                              | 32,942                                   |  |
| B390   | May-97                     | Apr-2032                      | 2,494,071                    | 91,561                        | 4.375%                              | 109,116                                  |  |
| B391   | May-97                     | Apr-2032                      | 4,159,592                    | 110,598                       | 4.120%                              | 171,375                                  |  |
| B396   | May-97                     | Apr-2032                      | 1,098,989                    | 40,330                        | 4.500%                              | 49,455                                   |  |
| B397   | May-97                     | Apr-2032                      | 2,737,458                    | 100,474                       | 4.375%                              | 119,764                                  |  |
| A400   | Oct-2005                   | Sep-2040                      | 5,000,000                    | 207,486                       | 4.740%                              | 237,000                                  |  |
| A401   | Oct-2005                   | Sep-2040                      | 5,000,000                    | 138,375                       | 4.880%                              | 244,000                                  |  |
| Economic Development                                       |                            |                               | 44,443                       | 0                             | 0.000%                              | 0  |  |
|  | Advance payment            |                               | (149,171)                    |                               |                                     |  |  |
|  |                            |                               | <u>21,051,764</u>            | <u>722,644</u>                |                                     | <u>963,802</u>                           |  |
| <b>FFB loans</b>   |                            |                               |                              |                               |                                     |  |  |
| H0010  | Feb-99                     | Jan-2034                      | 2,756,857                    | 154,913                       | 5.353%                              | 147,575                                  |  |
| H0015  | Feb-99                     | Jan-2034                      | 1,849,110                    | 111,802                       | 5.763%                              | 106,564                                  |  |
| H0020  | Feb-99                     | Jan-2034                      | 1,830,684                    | 97,775                        | 5.086%                              | 93,109                                   |  |
| H0025  | Feb-99                     | Jan-2034                      | 2,280,937                    | 116,923                       | 4.880%                              | 111,310                                  |  |
| H0030  | Feb-99                     | Jan-2034                      | 1,830,684                    | 97,775                        | 5.086%                              | 93,109                                   |  |
| H0035  | Feb-99                     | Jan-2034                      | 4,562,894                    | 234,565                       | 4.894%                              | 223,308                                  |  |
| H0040  | Feb-99                     | Jan-2034                      | 1,649,716                    | 82,863                        | 4.781%                              | 78,873                                   |  |
| H0070  | Jun-2001                   | May-2036                      | 23,626,628                   | 1,118,019                     | 4.510%                              | 1,065,561                                |  |
| H0100  | Feb-2004                   | Jan-2039                      | 18,401,326                   | 873,394                       | 4.505%                              | 828,980                                  |  |
|  |                            |                               | <u>58,788,836</u>            | <u>2,888,029</u>              |                                     | <u>2,748,387</u>                         |  |
| <b>CFC loans</b>   |                            |                               |                              |                               |                                     |  |  |
| 9001   | Jun-74                     | Jun-2009                      | 75,967                       | 6,635                         | 7.00%                               | 5,318                                    |  |
| 9008   | Mar-76                     | Mar-2011                      | 207,471                      | 14,746                        | 6.35%                               | 13,174                                   |  |
| 9010   | Mar-77                     | Mar-2012                      | 229,787                      | 14,568                        | 5.85%                               | 13,443                                   |  |
| 9012   | Mar-78                     | Mar-2013                      | 269,766                      | 16,991                        | 5.90%                               | 15,916                                   |  |
| 9015   | Jun-79                     | Jun-2014                      | 408,457                      | 25,607                        | 5.95%                               | 24,303                                   |  |
| 9018   | Mar-81                     | Mar-2016                      | 900,240                      | 56,216                        | 6.00%                               | 54,014                                   |  |
| 9021   | Jun-83                     | Jun-2018                      | 685,706                      | 43,087                        | 6.10%                               | 41,828                                   |  |
| 9022   | Mar-88                     | Mar-2023                      | 1,545,980                    | 97,557                        | 6.20%                               | 95,851                                   |  |
| 9023   | Mar-92                     | Mar-2027                      | 1,991,293                    | 134,961                       | 6.70%                               | 133,417                                  |  |
| 90241  | Dec-93                     | Dec-2028                      | 3,347,211                    | 226,486                       | 6.70%                               | 224,263                                  |  |
| 90243  | Dec-93                     | Dec-2028                      | 797,107                      | 50,743                        | 6.30%                               | 50,218                                   |  |
| 9025   | Mar-97                     | Feb-2032                      | 4,742,920                    | 301,204                       | 6.30%                               | 298,804                                  |  |
| 9030   | Aug-2003                   | Aug-2007                      | 912,833                      | 6,231                         | 3.80%                               | 34,688                                   |  |
| 9030   | Aug-2003                   | Aug-2008                      | 1,808,570                    | 77,769                        | 4.30%                               | 77,769                                   |  |
| 9030   | Aug-2003                   | Aug-2009                      | 1,808,570                    | 86,811                        | 4.80%                               | 86,811                                   |  |
| 9030   | Aug-2003                   | Aug-2010                      | 1,808,570                    | 91,333                        | 5.05%                               | 91,333                                   |  |
| 9030   | Aug-2003                   | Aug-2011                      | 1,808,570                    | 95,854                        | 5.30%                               | 95,854                                   |  |
| 9030   | Aug-2003                   | Aug-2012                      | 1,808,570                    | 98,567                        | 5.45%                               | 98,567                                   |  |
| 9030   | Aug-2003                   | Aug-2013                      | 1,808,570                    | 103,088                       | 5.70%                               | 103,088                                  |  |
| 9030   | Aug-2003                   | Aug-2014                      | 1,808,570                    | 105,801                       | 5.85%                               | 105,801                                  |  |
| 9030   | Aug-2003                   | Aug-2015                      | 1,808,570                    | 106,706                       | 5.90%                               | 106,706                                  |  |
| 9030   | Aug-2003                   | Aug-2016                      | 1,808,570                    | 107,610                       | 5.95%                               | 107,610                                  |  |
| 9030   | Aug-2003                   | Aug-2017                      | 1,808,570                    | 108,514                       | 6.00%                               | 108,514                                  |  |
| 9030   | Aug-2003                   | Aug-2018                      | 1,808,570                    | 109,418                       | 6.05%                               | 109,418                                  |  |
|  |                            |                               | <u>36,009,008</u>            | <u>2,086,505</u>              |                                     | <u>2,096,708</u>                         |  |
| Total long term debt and annualized cost                   |                            |                               | <u>115,849,608</u>           | <u>5,697,178</u>              |                                     | <u>5,808,898</u>                         |  |
| Annualized cost rate [Total Col. (j) / Total Col. (d)]     |                            |                               |                              |                               |                                     | 5.01%                                    |  |
| Actual test year cost rate [Total Col (k) / Total Reportec |                            |                               |                              |                               |                                     | 4.92%                                    |  |



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16. Refer to Exhibit 8 of the application, page 2 of 2, and pages 51-52 of the May 22, 2002 Management Audit Report on Jackson Energy performed for the PSC by Management Consulting Services, Inc. and Hedberg & Associates ("MCS Report") concerning the issue of "work orders abandoned."

a. Describe, generally, the nature of, and circumstances leading to, Jackson Energy's work orders abandoned and explain whether the amount in the proposed test year is typical for a 12-month period.

**Response**

Generally, abandoned work orders result from customers initially requesting a service be connected, then decide not to for some reason. The costs include the engineering/staking labor and costs to meet with the customer and prepare a staking sheet of the work to be performed. Jackson Energy reviews these open work orders on a periodic basis, and when it is determined that work will not be performed, the work order is abandoned. The number of abandoned work orders for the test year is typical.

b. The discussion in the audit report references two approaches for dealing with work orders abandoned. The first is to charge the accrued costs to Account 426.5, Other Deductions, which appears to be what is shown on page 2 of 2. The second is to charge the costs to the appropriate operating expense account. Explain whether Jackson Energy uses the first approach exclusively.

**Response**

Jackson Energy reviews the abandoned work orders to determine the appropriate approach. To date, all abandoned work orders have been recorded in Account 426.5 since none have been appropriate to include as an operating expense. The nature of the abandoned work orders for Jackson Energy dictates that the costs be included in Account 426.5.

c. Based on its response to part (a) of this request, explain how Jackson Energy determined that the cost of work orders abandoned should be removed for rate-making purposes.

**Response**

Jackson Energy removed all amounts in Account 426.5, and after further review, the amounts excluded for abandoned work orders should not have been removed. The amounts included in abandoned work orders are ordinary and necessary costs that must be incurred by an electric utility. In addition, these are of an ongoing and recurring basis.



Witness: Don Schaefer

Jackson Energy Cooperative  
Case No. 2007-00333  
Second Data Request of Commission Staff

17. Refer to Exhibit 9 of the application.

a. Is the \$19,096 cost incurred during the proposed test year the full cost of the depreciation study performed by Gannett? If no, what was the full cost and when were the additional costs incurred?

**Response**

Jackson Energy incurred an additional \$6,198.15 to Gannett for the depreciation study. This resulted in a total cost of \$25,294.25.

b. In Case No. 2000-00373, the cost of Jackson Energy's 2000 depreciation study was amortized over 5 years for rate-making purposes. Explain whether Jackson Energy believes that the cost of the current depreciation study should be similarly amortized for rate-making purposes.

**Response**

This was an oversight only. Jackson Energy agrees that the cost of the depreciated study should be amortized over a five year period.

c. Was Jackson Energy aware that in previous electric cooperative rate cases the Commission has not included as an expense for rate-making purposes the cost for legal seminars and legal subscriptions for the cooperative attorney? Explain in detail why the Commission should allow these expenses in this case.

**Response**

The legal seminar and legal subscription provide cooperative attorneys with the opportunity to become better educated on legal matters pertaining to electric cooperatives. Such opportunities only exist through the cooperative program. Therefore, it is our opinion that Jackson Energy, and its members, benefit more from paying for the seminars and legal subscriptions than by not paying.



Jackson Energy Cooperative  
Case No. 2007-00333  
Second Data Request of Commission Staff

17. d. Provide individual detailed descriptions of the items identified as “various legal issues” that totaled over \$48,000 in costs during the proposed test year.

Answer:

Date 10/31/2006      Check: 65170 Various Legal Issues

Preparing for condemnation of land for right of way, schedule coordination with our attorneys, pending litigation, legal opinion on membership record access, discuss board matters with President and CEO, review and respond to e-mails, code clearance violation due to consumer grade change, capital credit issues, discuss cooperative matters with other cooperative attorneys, prepare motion for default judgment, work on a pending workers compensation case, copies, mileage and other miscellaneous charges such as postage and telephone expenses.      Total \$ 3,956.55

Date 9/29/2006      Check: 64762 Various Legal Issues

Consult with district manager on consumer issue, review of board policy issues and PURPA requirements, bankruptcy of a consumer, pending workers compensation case, review large power contract, consultation on right of way easements, review and respond to e-mails, some pending issues with the sale of Jackson Service Plus, attend Cooperative Attorney Meeting in Louisville, code of conduct issues discussed with our statewide, copies, mileage, expenses for attending NRECA Legal Seminar and other miscellaneous charges such as postage and telephone expenses. Total \$ 3,938.26

Date 3/31/2006      Check: 61744 Various Legal Issues

Prepare for and attend Nominating Committee meeting, discuss Code of Conduct issues with the President and CEO, research employment issues related to background checks, research status of pending legislation, review and respond to e-mails, provide information regarding a previously owned cooperative truck involved in a fatality, review discussion board items regarding policies, prepare for and attend informal hearing with the PSC on AMI issues, attend the New Energy Policy Conference, phone calls from cooperative, court fees, telephone charges, mileage, and copies. Total \$ \$5,440.77

Date 4/28/2006      Check: 62442 Various Legal Issues

Review motion to correct deed, review discussion board items, pending workers comp case, consultation on contract bid opening, damage to transformer mitigation, joint use contracts, insurance claims, pending legislation discussions, review and respond to e-mails, attend meeting on Code of Conduct, discussions and e-mails with the President and CEO, consultation on Board Director replacement, respond and court filings on consumer dispute, postage, mileage, copies and telephone charges. Total \$ 4,004.43

Date 5/31/2006      Check: 62829 Various Legal Issues

Review documents on pending case with consumer, review discussion board items, pending workers comp case, file motions on pending court cases, claims, review audit letters, review and respond to e-mails, prepare summons, write audit opinion letter, consumer tree clearing complaint, postage, service fees, and mileage, telephone charges, and copies. Total \$ 4243.29

Date 8/31/2006      Check: 64158 Various Legal Issues

Meet and handle condemnation case and prepare motions, theft of property incident and returned checks, work on pending work comp case, review discussion board items, damage claims, review and respond to e-mails, pole attachment issues and joint pole contracts, consultation with NRECA legal staff, postage, copies, telephone charges, filing fees, and mileage. Total \$ 5,958.20

Date 8/31/2006      Check: 64263 Various Legal Issues

Review and respond to e-mails, review PURPA regulations, work on on-going condemnation case, draft motions for three cases, work on pending court case, attend KAEC conference on House Bill 568, consultation on employee termination notice, consultation with President and CEO on Perpetual Line of Credit, assist in preparation of large power contracts, mileage, telephone charges and copies. Total \$6,324.66

Date 8/22/2006      Check: 63995 Various Legal Issues

Telephone conference with East Kentucky Power, discussion with attorneys, all pertaining to the conclusion of the Lewis vs. Jackson Energy case. Total \$ 385.54

Date 11/30/2006      Check: 65752 Various Legal Issues

Close file on closed court case, review and respond to e-mails, consultation with President and CEO, work on joint use agreements, review consumer bankruptcy filing, review Strategic Planning document, consultation on issues related to Jackson Propane Plus, LLC as it pertains to Jackson Energy, collection of damages, recording fees, postage, copies, mileage, and telephone expenses. Total \$ 2,944.71

Date 1/29/2007      Check: 66321 Various Legal Issues

Review and respond to e-mails, conference with KAEC attorneys, consultation on FMLA issues, pending workers comp issue, conference with EKPC attorney, conference with Cumberland Valley Co-op attorney and multiple phone calls, consultation with President and CEO on Board matters, postage, copies, mileage, and phone charges.

Total \$3,443.48

Date 2/01/2007      Check: 66683 Various Legal Issues

Consultation on bad debt write-offs, phone call from Cumberland Valley attorney, pending workers comp issue, consultation on preparation of PSC responses, review and respond to e-mails, consultation on the East Kentucky Power rate increase case, consultation on a proposed Bylaw change, postage, copies and telephone charges.

Total \$ 2320.95

Date 2/28/2007      Check: 66983 Various Legal Issues

Work on pending workers comp case, consumer complaint, consultation on safety meetings, consultation and letter to PSC on entry of appearance, review and respond to e-mails, consultation and correspondence on a right of way complaint, preparation on an addendum to the RUS contract, postage, mileage, telephone charges, computer research, and copies.      Total \$ 5,231.45

17. e. Explain what was involved in the “labor matters” for which Jackson Energy paid over \$3,800 to Frost, Brown & Todd, LLC, and why Jackson Energy’s local attorneys could not have handled these matters.

Answer:

This item is identified incorrectly. It would more appropriately have been called “Mitigation following the Supreme Court ruling on cooperatives providing other services”. Frost, Brown & Todd, LLC, was engaged to assist Jackson Energy following the unfavorable ruling by the Kentucky Supreme Court. This included drafting a proposed bill for the legislature to consider. This also included a request for reconsideration by the Supreme Court. This should have been removed for rate-making purposes.

Outside legal consultation and assistance was deemed advisable for this work.



Jackson Energy Cooperative  
Case No. 2007-00333  
Second Data Request of Commission Staff

18. Refer to Exhibit 10 of the application which details the adjustment proposed for director expenses.

a. Refer to page 2 of the exhibit. Explain whether anyone is, or was during the test year, designated as an alternate to represent Jackson Energy with either the Kentucky Association of Electric Cooperatives ("KAEC") or the National Rural Electric Cooperative Association ("NRECA").

**Response**

KAEC alternate: Don Schaefer

NRECA alternate: Fred Callahan

b. Explain whether Jackson Energy was aware that it has been Commission policy to allow expenses for attendance at KAEC or NRECA meetings for rate-making purposes only for attendance by a cooperative's designated representative or its designated alternate representative. Explain in detail why the Commission should allow such expenses for other directors in this case.

**Response**

Expenses for directors that attended the KAEC annual meeting that were not the designated representative or alternate, have been removed from this application. These include directors Binder, Brown, Madden, McWhorter, and Patton. Expenses for director Cundiff in the amount of \$336.17 for attending the KAEC annual meeting should have been removed and was not.

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 for all directors that attend the NRECA annual meeting.

c. Some directors attended "other board meetings" that are identified as being for a "director search." Provide a detailed description of what Jackson Energy's director search entailed.

**Response**

The board of directors formed a Search Committee to review resumes that were received due to vacancies in two districts. These are not recurring and should have been removed for rate-making purposes.

d. Jackson Energy's policy for directors states that the chairman and secretary/treasurer will receive an additional \$300 for "time involved in carrying out official duties." Explain whether this is the reason that directors Binder, Callahan, and Stamper are shown as receiving \$600 for regular board meetings. Explain whether Jackson Energy was aware that it has been Commission policy not to allow this type of additional compensation to be recovered through rates by electric cooperatives. Explain in detail why the Commission should allow these expenses in this case.

**Response**

Yes, this is the reason. The additional compensation should have been removed, this was an oversight on our part.

e. Jackson Energy's policy for directors states that newer board members (those joining the board on or after May 11, 2006) will receive \$1,000 monthly, as compared to the \$300 monthly amount paid to individuals that were directors prior to May 11, 2006. Provide a detailed explanation for why Jackson Energy has chosen to pay a monthly fee of \$1,000 and why it is reasonable for an amount of this magnitude to be allowed for rate-making purposes.

**Response**

Directors appointed or elected after May 11, 2006, were no longer offered health insurance coverage under the Cooperative's group plan for neither themselves nor eligible dependents, as previously offered prior to May 11, 2006.

f. Exhibit 10 reflects that some directors received per diem amounts for attendance at KAEC or NRECA meetings or training sessions in addition to being reimbursed for their out of pocket expenses. Explain whether Jackson Energy was aware that is has been Commission policy not to allow per diem amounts to be recovered through rates when the director was also reimbursed for actual expenses. Explain in detail why the Commission should allow these expenses in this case.

**Response**

Jackson Energy is aware that per diems are not allowed when actual expenses are also reimbursed.

Exhibit 10, page 1 of 19 removes all per diems that are included for each director.





Witness: Don Schaefer

Jackson Energy Cooperative  
Case No. 2007-00333  
Second Data Request of Commission Staff

19. Refer to page 6 of 19 in Exhibit 10. Describe the type of training provided to directors who attended KAEC coordinated training, such as Mr. Callahan.

**Response**

Jackson Energy misstated the descriptions on lines 33 and 34, on page 6 of 19. The description for line 33 should be "KAEC annual meeting" and line 34 should have stated "NRECA regional meeting".



Jackson Energy Cooperative

Case No. 2007-00333

Second Data Request of Commission Staff

20. Refer to pages 7 of 19 and 15 of 19 in Exhibit 10. Describe the type of training provided to directors who attend NRECA pre-annual meeting training, such as Mr. Cundiff and Phillip Thompson.

**Response**

This was a Strategic Planning course designed to instruct directors on how to participate effectively in the strategic planning process.



**RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST**

**PARTNER'S PLUS & EMPLOYEE PURCHASES**

- Q. Refer to Exhibit 11 of the application.
- a. Refer to page 1 of 10. Provide a more detailed description of EKPC's Partner Plus Program including an explanation of why EKPC has opted to eliminate the program.
- R a. EKPC's Partner Plus Program was an equal expense sharing between EKPC and its member systems. A Cooperative such as Jackson Energy could incur an expense for promotional purposes (whether for JECC or for Touchstone Energy) and be reimbursed for 50 percent of this expenditure by EKPC.

Additionally, this program provided for the equal sharing of rebates between EKPC and the member systems for programs that included energy efficient homes, and energy efficient programs.

Partners Plus has been discontinued due to cost cutting at EKPC.

- Q b. On pages 3 through 5 there are several references to "Employee purchases." Explain the nature of these purchases and why the transaction is recorded in Account No. 913.00.
- R b. Employees may purchase clothing with the Jackson Energy logo. Many employee wear this clothing on the job. It helps identify Jackson Energy employees to the public and its consumers. The Cooperative encourages these purchases by offering them at a discounted rate. The discounts are reflected as "Employee purchases" in Account No. 913.00.
- Q. c. On page 5 of 10 there are several entries identified as "Apparel" and "Monogram apparel." Explain the nature of these entries and why the transaction is recorded in Account No. 913.00.
- R c. As explained in part b above, employees may purchase clothing with the Jackson Energy logo. The entries identified as "Apparel" and "Monogram apparel" represent the payments to the clothing vendors.

**RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST**

**PARTNER'S PLUS & EMPLOYEE PURCHASES**

- Q d On page 7 of 10 there is a transaction identified as "Special early retirement". Provide a detailed explanation of this transaction. Provide a detailed explanation of this transaction.
- R d During the year, JECC offered an early retirement to a group of employees. JECC paid NRECA, the retirement plan sponsor for the amount needed to fund the early retirement.



Jackson Energy Cooperative

Case No. 2007-00333

Second Data Request of Commission Staff

22. Refer to Exhibit 16 of the applicaiton. Provide the source document and/or derivation of the amount of \$342,752 identified as "fuel adjustment lag."

**Response**

Jackson Energy receives a power bill from East Kentucky Power Cooperative ("EKPC") each month. Included in the power bill is a fuel amount. Jackson Energy recovers the fuel amount in the billings to its consumers but on a two (2) month delayed basis. This results in two months of unbilled fuel not showing in revenue but reflecting in the purchase power expense.

To more appropriately match the fuel revenue and expenses, we started in 2005 accounting for the unbilled fuel on the books. The entries are to set up unbilled revenue in the month of the power bill fuel cost and then reverse the amount out two months later when the billing to the consumers took place.

The \$342,752 fuel adjustment lag is calculated as follows:

|  |                       |
|--|-----------------------|
| January 2006 fuel amount reversed in March 2006  | 1,237,344             |
| February 2006 fuel amount reversed in April 2006 | 720,087               |
| January 2007 fuel amount reversed in March 2007  | (728,117)             |
| February 2007 fuel amount reversed in April 2007 | <u>(886,562)</u>      |
|  | <u><u>342,752</u></u> |





**RESPONSE TO COMMISSIONS STAFF'S SECOND DATA REQUEST**

**BOARD OF DIRECTOR INFORMATION**

- Q. Refer to Item 16 of Jackson Energy's response to the Staff's initial data request.
- a. Provide copies of and explanation for the revisions to Board Policy B200 occurring since 2001.
  - b. Provide copies of the annual long range financial study and the annual review of the equity and equity performance submitted to the Board of Directors in April 2006 and April 2007. If these reviews were not performed, explain in detail the reason(s) for not performing the policy-required reviews.
- R. a. Attached on pages 2 through 16 of this response is the revised Board Policy B2000. Most changes to this policy since 2001 has been word of phrase changes to better clarify the intent of this policy. The revision dated August 13, 2004 is the revision where major changes were made. Major revisions were made to the Capital Credit Retirement Section which now provides for a less restrictive numeric guidelines for determining capital credits and specific definition for equity level.
- b. Attached as pages 17 through 22 is a copy of the annual review of the equity and equity performance submitted to the Board of Directors in April 2007 and April 2006,

## JACKSON ENERGY COOPERATIVE CORPORATION

### BOARD POLICY NO. B200

#### SUBJECT: CAPITAL MANAGEMENT

#### I. OBJECTIVES:

- A. To assure the financial strength of the Cooperative, in order to provide high quality electric services to members, and at the same time provide power at cost consistent with Cooperative philosophy.
- B. To develop an approach to long range financial planning which will assure that the Cooperative meets its financial responsibilities to both lending entities and member-owners through equity and margin planning.
- C. To comply with the various regulations and operational practices prescribed by RUS, Kentucky Public Service Commission and other agencies as required.

#### II. POLICY:

##### A. Equity and TIER Levels

It will be the policy of the Cooperative to achieve and maintain a target Equity Capitalization Ratio of 30-40% excluding Generation and Transmission Capital Credits (GTCC's) and a TIER Ratio of 1.50 to 2.00 excluding GTCC's.

- B. A long range financial plan will be developed and updated periodically that will guide and insure the Cooperative meeting all of its financial obligations which include the following:
  1. Maintaining a minimum current ratio (current assets divided by current liabilities) of 1.0 as target measure for cash.
  2. It will be the policy of the Cooperative to achieve and maintain a standard DSC (Debt Service Coverage) minimum level of 1.25 or an operating DSC minimum of 1.10 to meet loan eligibility requirements as a borrower of RUS and CFC. Maintaining these minimum levels will assure that funds are available for debt retirement.

Effective Date: February 14, 2003

## JACKSON ENERGY COOPERATIVE CORPORATION

### BOARD POLICY NO. B200 PAGE 2

3. Maintaining access to timely loan fund balances and sources to meet needed plant additions.
4. Insuring that funds are available for an established capital credit retirement program.
5. Maintaining revenue requirements necessary to meet margins, equity, TIER and capital credit rotation requirements.

#### C. Capital Credit Retirements

1. A capital credit rotation program will be developed on a minimum year cycle using an appropriate method determined at the time of retirement and the retirement of estates of deceased members.
2. A capital credit rotation plan will be developed on a minimum cycle using a percentage of the previous years margins. This percentage is initially set at 25%. GTCC's are excluded from this method. Capital credits will only be paid when the distribution target equity ratio is greater than 35% and the TIER ratio is 1.75 or greater. Capital credit payouts cannot reduce the equity below 33% or the TIER ratio to less than 1.50 after payout. The amount of capital credits to be paid to any member will be based on an equal percentage payment to all members. The percentage amount will be equal to the amount of capital credits to be paid divided by the amount of distribution equity on the books at the end of the previous calendar year. GTCC's are excluded from this equity amount.
3. Capital credits will be allocated to members on a gross billing basis.
4. A written report will be submitted the Public Service Commission on the status of the patronage capital credit rotation for the prior calendar year no later than March 31 of each year.

## JACKSON ENERGY COOPERATIVE CORPORATION

### BOARD POLICY NO. B200

PAGE 3

D. Policy Performance Review

A long range financial study and a review of the equity and equity management performance as well as the cash working capital level shall be conducted at least annually and reported to the Board of Directors in April of each year.

### III. RESPONSIBILITY:

- A. The President and CEO is responsible for the administration of this policy and for recommending needed revisions to the Board of Directors.
- B. The Board of Directors shall determine that the Cooperative's Capital Management Policy meets the needs of the member-owners.

  
CHAIRMAN OF THE BOARD

**DATE ADOPTED: March 8, 1996**  
**DATE EFFECTIVE: March 8, 1996**  
**REVISED DATE: March 10, 2000**  
**REVISED EFFECTIVE DATE: February 14, 2003**  
**SUPERCEDES POLICY NO. 4-19**

## JACKSON ENERGY COOPERATIVE CORPORATION

### BOARD POLICY NO. B200

#### SUBJECT: CAPITAL MANAGEMENT

#### I. OBJECTIVES:

- A. To assure the financial strength of the Cooperative, in order to provide high quality electric services to members, and at the same time provide power at cost consistent with Cooperative philosophy.
- B. To develop an approach to long range financial planning which will assure that the Cooperative meets its financial responsibilities to both lending entities and member-owners through equity and margin planning.
- C. To comply with the various regulations and operational practices prescribed by RUS, Kentucky Public Service Commission and other agencies as required.

#### II. POLICY:

##### A. Equity and TIER Levels

It will be the policy of the Cooperative to achieve and maintain a target Equity Capitalization Ratio of 30-40% excluding Generation and Transmission Capital Credits (GTCC's) and a TIER Ratio of 1.50 to 2.00 excluding GTCC's.

- B. A long range financial plan will be developed and updated periodically that will guide and insure the Cooperative meeting all of its financial obligations which include the following:
  1. Maintaining a minimum current ratio (current assets divided by current liabilities) of 1.0 as target measure for cash.
  2. It will be the policy of the Cooperative to achieve and maintain a standard DSC (Debt Service Coverage) minimum level of 1.25 or an operating DSC minimum of 1.10 to meet loan eligibility requirements as a borrower of RUS and CFC. Maintaining these minimum levels will assure that funds are available for debt retirement.

Effective Date: March 12, 2004

## **JACKSON ENERGY COOPERATIVE CORPORATION**

### **BOARD POLICY NO. B200 PAGE 2**

3. Maintaining access to timely loan fund balances and sources to meet needed plant additions.
4. Insuring that funds are available for an established capital credit retirement program.
5. Maintaining revenue requirements necessary to meet margins, equity, TIER and capital credit rotation requirements.

#### **C. Capital Credit Retirements**

1. A capital credit rotation program will be developed on a minimum year cycle using an appropriate method determined at the time of retirement and the retirement of estates of deceased members.
2. A capital credit rotation plan will be developed on a minimum cycle using a percentage of the previous years margins. This percentage is initially set at 25%. GTCC's are excluded from this method. Capital credits will only be paid when the distribution target equity ratio is greater than 35% and the TIER ratio is 1.75 or greater. Capital credit payouts cannot reduce the equity below 33% or the TIER ratio to less than 1.50 after payout. The amount of capital credits to be paid to any member will be based on an equal percentage payment to all members. The percentage amount will be equal to the amount of capital credits to be paid divided by the amount of distribution equity on the books at the end of the previous calendar year. GTCC's are excluded from this equity amount.
3. Capital credits will be allocated to members on a gross billing basis.
4. A written report will be submitted the Public Service Commission on the status of the patronage capital credit rotation for the prior calendar year no later than March 31 of each year.

## JACKSON ENERGY COOPERATIVE CORPORATION

### BOARD POLICY NO. B200

PAGE 3

D. Policy Performance Review

A long range financial study and a review of the equity and equity management performance as well as the cash working capital level shall be conducted at least annually and reported to the Board of Directors in April of each year.

### III. RESPONSIBILITY:

- A. The President and CEO is responsible for the administration of this policy and for recommending needed revisions to the Board of Directors.
- B. The Board of Directors shall determine that the Cooperative's Capital Management Policy meets the needs of the member-owners.

  
CHAIRMAN OF THE BOARD

DATE ADOPTED: March 8, 1996  
DATE EFFECTIVE: March 8, 1996  
REVISED DATE: March 10, 2000  
REVISED EFFECTIVE DATE: February 14, 2003  
REVISED EFFECTIVE DATE: March 12, 2004



## JACKSON ENERGY COOPERATIVE CORPORATION

### BOARD POLICY NO. B200

#### SUBJECT: CAPITAL MANAGEMENT

#### I. OBJECTIVES:

- A. To assure the financial strength of the Cooperative, in order to provide high quality electric services to members, and at the same time provide power at cost consistent with Cooperative philosophy.
- B. To develop an approach to long range financial planning which will assure that the Cooperative meets its financial responsibilities to both lending entities and member-owners through equity and margin planning.
- C. To comply with the various regulations and operational practices prescribed by RUS, Kentucky Public Service Commission and other agencies as required.

#### II. POLICY:

##### A. Equity and TIER Levels

It will be the policy of the Cooperative to achieve and maintain a target Equity Ratio of 30-40% excluding Generation and Transmission Capital Credits (GTCC's) and a TIER Ratio of 1.50 to 2.00 including GTCC's.

- B. A long range financial plan will be developed and updated periodically that will guide and insure the Cooperative meeting all of its financial obligations which include the following:
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*Effective Date: August 13, 2004*

## JACKSON ENERGY COOPERATIVE CORPORATION

### BOARD POLICY NO. B200

#### PAGE 2

3. Maintaining access to timely loan fund balances and sources to meet needed plant additions.
4. Insuring that funds are available for an established capital credit retirement program.
5. Maintaining revenue requirements necessary to meet margins, equity, TIER and capital credit rotation requirements.

#### C. Capital Credit Retirements

1. In addition to estate retirements, the Cooperative will consider general retirement of capital credits each year.
2. The Board may elect to dispense with capital credit general retirements if they feel that the financial conditions are not advantageous to the Cooperative to do so. The Board may elect the appropriate method at the time of the retirement.
3. Capital credits may be retired on a general basis, provided that mortgage requirements would be met. These include a TIER minimum of 1.25 and an equity level of no less than 30% after the retirement. Equity level is defined as Total Margins and Equity divided by Total Assets from the RUS Form 7.
4. Capital credits will be allocated to members on the basis of margins contributed per rate.

#### D. Policy Performance Review

A long range financial study and a review of the equity and equity management performance as well as the cash working capital level shall be conducted at least annually and reported to the Board of Directors in April of each year.

## JACKSON ENERGY COOPERATIVE CORPORATION

### BOARD POLICY NO. B200

PAGE 3

#### III. RESPONSIBILITY:

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CHAIRMAN OF THE BOARD

DATE ADOPTED: March 8, 1996  
DATE EFFECTIVE: March 8, 1996  
REVISED DATE: March 10, 2000  
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REVISED EFFECTIVE DATE: March 12, 2004  
REVISED EFFECTIVE DATE: August 13, 2004

## JACKSON ENERGY COOPERATIVE CORPORATION

### BOARD POLICY NO. B200

*August  
2004  
meeting*

#### SUBJECT: CAPITAL MANAGEMENT

#### I. OBJECTIVES:

- A. To assure the financial strength of the Cooperative, in order to provide high quality electric services to members, and at the same time provide power at cost consistent with Cooperative philosophy.
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*X*

- B. A long range financial plan will be developed and updated periodically that will guide and insure the Cooperative meeting all of its financial obligations which include the following:
  - 1. Maintaining a minimum current ratio (current assets divided by current liabilities) of 1.0 as target measure for cash.
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## JACKSON ENERGY COOPERATIVE CORPORATION

### BOARD POLICY NO. B200

#### PAGE 2

3. Maintaining access to timely loan fund balances and sources to meet needed plant additions.
4. Insuring that funds are available for an established capital credit retirement program.
5. Maintaining revenue requirements necessary to meet margins, equity, TIER and capital credit rotation requirements.

#### C. Capital Credit Retirements

~~1. A capital credit rotation program will be developed on a minimum year cycle using an appropriate method determined at the time of retirement and the retirement of estates of deceased members.~~

~~2. A capital credit rotation plan will be developed on a minimum cycle using a percentage of the previous years margins. This percentage is initially set at 25%. GTCC's are excluded from this method. Capital credits will only be paid when the distribution target equity ratio is greater than 35% and the TIER ratio is 1.75 or greater. Capital credit payouts cannot reduce the equity below 33% or the TIER ratio to less than 1.50 after payout. The amount of capital credits to be paid to any member will be based on an equal percentage payment to all members. The percentage amount will be equal to the amount of capital credits to be paid divided by the amount of distribution equity on the books at the end of the previous calendar year. GTCC's are excluded from this equity amount.~~

1. **In addition to estate retirements, the Cooperative will consider general retirement of capital credits each year.**
2. **The Board may elect to dispense with capital credit general retirements if they feel that the financial conditions are not advantageous to the Cooperative to do so. The Board may elect the appropriate method at the time of the retirement.**

*discuss*

## JACKSON ENERGY COOPERATIVE CORPORATION

### BOARD POLICY NO. B200

PAGE 3

3. **Capital credits may be retired on a general basis, provided that mortgage requirements would be met. These include a TIER minimum of 1.25 and an equity level of no less than 30% after the retirement. Equity level is defined as Total Margins and Equity divided by Total Assets from the RUS Form 7.**
4. **Capital credits will be allocated to members on the basis of margins contributed per rate.**
- ~~3. A written report will be submitted the Public Service Commission on the status of the patronage capital credit rotation for the prior calendar year no later than March 31 of each year.~~

D. Policy Performance Review

A long range financial study and a review of the equity and equity management performance as well as the cash working capital level shall be conducted at least annually and reported to the Board of Directors in **May** of each year.

### III. RESPONSIBILITY:

- A. The President and CEO is responsible for the administration of this policy and for recommending needed revisions to the Board of Directors.
- B. The Board of Directors shall determine that the Cooperative's Capital Management Policy meets the needs of the member-owners.

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**CHAIRMAN OF THE BOARD**

**DATE ADOPTED: March 8, 1996**  
**DATE EFFECTIVE: March 8, 1996**  
**REVISED DATE: March 10, 2000**  
**REVISED EFFECTIVE DATE: February 14, 2003**  
**REVISED EFFECTIVE DATE: March 12, 2004**

## JACKSON ENERGY COOPERATIVE CORPORATION

### BOARD POLICY NO. B200

#### SUBJECT: CAPITAL MANAGEMENT

#### I. OBJECTIVES:

- A. To assure the financial strength of the Cooperative, in order to provide high quality electric services to members, and at the same time provide power at cost consistent with Cooperative philosophy.
- B. To develop an approach to long range financial planning which will assure that the Cooperative meets its financial responsibilities to both lending entities and member-owners through equity and margin planning.
- C. To comply with the various regulations and operational practices prescribed by RUS, Kentucky Public Service Commission and other agencies as required.

#### II. POLICY:

##### A. Equity and TIER Levels

It will be the policy of the Cooperative to achieve and maintain a target Equity Ratio of 30-40% excluding Generation and Transmission Capital Credits (GTCC's) and a TIER Ratio of 1.50 to 2.00 including GTCC's.

- B. A long range financial plan will be developed and updated periodically that will guide and insure the Cooperative meeting all of its financial obligations which include the following:
  - 1. Maintaining a minimum current ratio (current assets divided by current liabilities) of 1.0 as target measure for cash.
  - 2. It will be the policy of the Cooperative to achieve and maintain a standard DSC (Debt Service Coverage) minimum level of 1.25 or an operating DSC minimum of 1.10 to meet loan eligibility requirements as a borrower of RUS and CFC. Maintaining these minimum levels will assure that funds are available for debt retirement.

Effective Date: June 10, 2005 \*

\* Last revision to date

## JACKSON ENERGY COOPERATIVE CORPORATION

### BOARD POLICY NO. B200

#### PAGE 2

3. Maintaining access to timely loan fund balances and sources to meet needed plant additions.
4. Insuring that funds are available for an established capital credit retirement program.
5. Maintaining revenue requirements necessary to meet margins, equity, TIER and capital credit rotation requirements.

#### C. Capital Credit Retirements

1. In addition to estate retirements, the Cooperative will consider general retirement of capital credits each year.
2. The Board may elect to dispense with capital credit general retirements if they feel that the financial conditions are not advantageous to the Cooperative to do so. The Board may elect the appropriate method at the time of the retirement.
3. Capital credits may be retired on a general basis, provided that mortgage requirements would be met. These include a TIER minimum of 1.25 and an equity level of no less than 30% after the retirement. Equity level is defined as Total Margins and Equity divided by Total Assets from the RUS Form 7.
4. Capital credits will be allocated to members on the basis of margins contributed per rate.

#### D. Policy Performance Review

A long range financial study and a review of the equity and equity management performance as well as the cash working capital level shall be conducted at least annually and reported to the Board of Directors in April of each year.



**JACKSON ENERGY COOPERATIVE CORPORATION**

**BOARD POLICY NO. B200**

PAGE 3

**III. RESPONSIBILITY:**

- A. The President and CEO is responsible for the administration of this policy and for recommending needed revisions to the Board of Directors.
- B. The Board of Directors shall determine that the Cooperative's Capital Management Policy meets the needs of the member-owners.

  
**CHAIRMAN OF THE BOARD**

**DATE ADOPTED: March 8, 1996**  
**REVISED DATE: March 10, 2000**  
**REVISED DATE: February 14, 2003**  
**REVISED DATE: March 12, 2004**  
**REVISED DATE: August 13, 2004**  
**REVISED DATE: June 10, 2005**

**JACKSON ENERGY COOPERATIVE CORPORATION**  
KY 3 JACKSON

Mark Keena  
April 4, 2007

FINANCIAL FORECAST  
RUS FORM 325A- RATIOS

| LAST YEAR  | FUTURE YEARS |             |             |             |             |             |             |             |             |             |             |
|--|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|  | 2006         | 2007        | 2008        | 2009        | 2010        | 2011        | 2012        | 2013        | 2014        | 2015        | 2016        |
| 1. EQUITY RATIO (WITH ADD. REV.) (%)                               | 28.87        | 28.28       | 28.82       | 28.33       | 28.90       | 30.41       | 30.84       | 31.31       | 31.82       | 32.35       | 32.89       |
| 2a. DEBT SERVICE COVERAGE (WITH ADD. REV.)                         | 1.16         | 1.61        | 1.69        | 1.84        | 1.78        | 1.72        | 1.67        | 1.65        | 1.63        | 1.61        | 1.58        |
| 2b. OPERATING DSC (including op. margins + G&T & lender COs paid)  | 0.74         | 1.25        | 1.88        | 1.82        | 1.76        | 1.71        | 1.66        | 1.64        | 1.61        | 1.60        | 1.57        |
| 3a. TIMES INTEREST RATIO (WITH ADD. REV.)                          | 8.82         | 1.23        | 1.68        | 1.63        | 1.58        | 1.55        | 1.50        | 1.50        | 1.50        | 1.50        | 1.50        |
| 3b. OPERATING TIER (including op. margins + G&T & lender COs paid) | 8.88         | 8.83        | 9.43        | 9.44        | 9.46        | 9.46        | 9.43        | 9.48        | 9.50        | 9.53        | 9.54        |
| 4. AVERAGE REVENUE PER KWH SOLD (CENTS)                            | 2.41         | 6.76        | 6.76        | 0.13        | 0.10        | 0.15        | -0.31       | 0.31        | 0.38        | 0.37        | 0.06        |
| 5. INCREASE IN AVERAGE REVENUE PER KWH SOLD (%)                    | 18.51        | 18.28       | 18.25       | 18.47       | 18.61       | 18.80       | 18.79       | 18.84       | 20.16       | 20.39       | 20.48       |
| 6. TOTAL UTILITY PLANT PER KWH SOLD (CENTS)                        | 1.40         | 3.78        | 6.33        | 9.72        | 12.65       | 15.97       | 18.09       | 20.25       | 22.14       | 23.80       | 25.32       |
| 7. NET GENERAL FUNDS TO TOTAL UTILITY PLANT (%)                    | 18.33        | 18.78       | 20.05       | 21.56       | 23.20       | 24.86       | 26.52       | 28.18       | 28.83       | 31.46       | 33.08       |
| 8. ACCUM. PROV. FOR DEP. & AMORT. TO T.U.P. (%)                    | 67.55        | 172.18      | 175.70      | 178.30      | 182.98      | 186.37      | 189.84      | 193.39      | 197.04      | 200.78      | 204.82      |
| 9. OPERATIONS & MAINTENANCE EXP. PER CONSUMER (\$)                 | 8.88         | 5.81        | 5.43        | 5.47        | 5.50        | 5.53        | 5.57        | 5.57        | 5.57        | 5.58        | 5.60        |
| 10. ADMIN. & GEN. EXPENSE PER CONSUMER (\$)                        | 153,016,781  | 157,544,863 | 159,785,577 | 160,772,713 | 161,539,863 | 162,330,027 | 163,143,886 | 163,982,181 | 164,845,614 | 165,734,851 | 166,651,000 |
| 11. PLANT REVENUE RATIO  | 0.74         | 7.93        | 8.09        | 8.23        | 8.42        | 8.36        | 8.36        | 8.72        | 9.15        | 9.58        | 9.90        |
| 12. RATE OF RETURN ON RATE BASE (WITH ADD. REV.) (%)               | 1.61         | 1.89        | 1.84        | 1.78        | 1.72        | 1.72        | 1.67        | 1.65        | 1.63        | 1.61        | 1.58        |
| 13. RATE BASE = 104% OF NET UTILITY PLANT                          | 1.25         | 1.70        | 1.65        | 1.60        | 1.55        | 1.50        | 1.50        | 1.50        | 1.50        | 1.50        | 1.50        |
| 14. INCREASE OVER PRESENT RETAIL RATES REQUIRED (%)                | 175,571,870  | 181,109,658 | 188,472,579 | 195,861,368 | 201,276,861 | 206,719,789 | 212,431,023 | 218,418,588 | 224,690,775 | 231,256,129 | 238,123,445 |
| 15. MODIFIED DSC (FOR RUS USE)                                     | 32,187,831   | 33,978,128  | 37,867,134  | 42,221,410  | 46,897,714  | 51,393,007  | 56,344,459  | 61,549,455  | 67,015,801  | 72,750,731  | 78,762,915  |
| 16. MODIFIED TIER (NET OF G&T & OTHER CAP CREDITS)                 | 143,364,039  | 147,131,530 | 151,485,445 | 153,839,978 | 154,589,147 | 155,328,761 | 156,096,364 | 156,869,131 | 157,675,174 | 158,505,368 | 159,360,530 |
| a. NET GENERAL FUNDS   | 2,466,377    | 8,801,800   | 11,899,042  | 18,045,206  | 25,866,308  | 32,401,817  | 38,419,983  | 44,219,947  | 48,754,531  | 55,049,190  | 60,286,589  |
| b. GENERAL FUNDS EXCLUDABLE ITEMS                                  | 2,157,864    | 2,157,864   | 2,157,864   | 2,157,864   | 2,157,864   | 2,157,864   | 2,157,864   | 2,157,864   | 2,157,864   | 2,157,864   | 2,157,864   |
| c. OTHER ASSETS AND DEBITS   | 46,481,980   | 46,481,980  | 46,481,980  | 46,481,980  | 46,481,980  | 46,481,980  | 46,481,980  | 46,481,980  | 46,481,980  | 46,481,980  | 46,481,980  |
| d. TOTAL ASSETS AND OTHER DEBITS                                   | 194,480,260  | 202,573,174 | 212,114,331 | 221,325,027 | 229,085,299 | 236,368,452 | 243,145,771 | 248,728,821 | 250,069,548 | 252,194,433 | 258,286,973 |
| e. LIABILITIES AND OTHER CREDITS                                   | 56,153,111   | 57,237,858  | 61,137,033  | 64,809,552  | 68,503,892  | 71,874,089  | 74,980,738  | 78,182,977  | 81,474,091  | 84,824,409  | 88,239,737  |
| f. TOTAL MARGINS AND EQUITIES                                      | 15,598       | 20,713,531  | 20,327,317  | 19,828,477  | 18,518,726  | 18,102,459  | 18,670,449  | 18,221,571  | 17,754,645  | 17,268,430  | 16,761,616  |
| g. LONG TERM DEBT - 2% & 3%  | 58,788,835   | 68,102,890  | 76,174,884  | 84,142,862  | 90,843,748  | 97,576,743  | 104,039,285 | 110,329,191 | 116,437,789 | 122,359,014 | 128,344,401 |
| h. LONG TERM DEBT - GUARANTEE                                      | 36,608,485   | 34,684,706  | 32,650,997  | 30,520,027  | 28,304,845  | 26,991,072  | 23,621,210  | 21,161,094  | 18,578,824  | 15,921,481  | 13,117,130  |
| i. LONG TERM DEBT - OTHER  | 21,824,088   | 21,824,088  | 21,824,088  | 21,824,088  | 21,824,088  | 21,824,088  | 21,824,088  | 21,824,088  | 21,824,088  | 21,824,088  | 21,824,088  |
| j. OTHER LIABILITIES AND CREDITS                                   | 154,460,260  | 202,573,174 | 212,114,331 | 221,325,027 | 229,085,299 | 236,368,452 | 243,145,771 | 248,728,821 | 250,069,548 | 252,194,433 | 258,286,973 |

FINANCIAL FORECAST  
RUS FORM 325B - PRO FORMA BALANCE SHEET

| LAST YEAR                                | FUTURE YEARS |             |             |             |             |             |             |             |             |             |             |
|--|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|  | 2006         | 2007        | 2008        | 2009        | 2010        | 2011        | 2012        | 2013        | 2014        | 2015        | 2016        |
| 1. ASSETS AND OTHER DEBITS               | 175,571,870  | 181,109,658 | 188,472,579 | 195,861,368 | 201,276,861 | 206,719,789 | 212,431,023 | 218,418,588 | 224,690,775 | 231,256,129 | 238,123,445 |
| a. TOTAL UTILITY PLANT                   | 32,187,831   | 33,978,128  | 37,867,134  | 42,221,410  | 46,897,714  | 51,393,007  | 56,344,459  | 61,549,455  | 67,015,801  | 72,750,731  | 78,762,915  |
| b. ACCUM. PROVISION FOR DEPREC. & AMORT. | 143,364,039  | 147,131,530 | 151,485,445 | 153,839,978 | 154,589,147 | 155,328,761 | 156,096,364 | 156,869,131 | 157,675,174 | 158,505,368 | 159,360,530 |
| c. NET UTILITY PLANT                     | 2,466,377    | 8,801,800   | 11,899,042  | 18,045,206  | 25,866,308  | 32,401,817  | 38,419,983  | 44,219,947  | 48,754,531  | 55,049,190  | 60,286,589  |
| d. NET GENERAL FUNDS                     | 2,157,864    | 2,157,864   | 2,157,864   | 2,157,864   | 2,157,864   | 2,157,864   | 2,157,864   | 2,157,864   | 2,157,864   | 2,157,864   | 2,157,864   |
| e. GENERAL FUNDS EXCLUDABLE ITEMS        | 46,481,980   | 46,481,980  | 46,481,980  | 46,481,980  | 46,481,980  | 46,481,980  | 46,481,980  | 46,481,980  | 46,481,980  | 46,481,980  | 46,481,980  |
| f. OTHER ASSETS AND DEBITS               | 194,480,260  | 202,573,174 | 212,114,331 | 221,325,027 | 229,085,299 | 236,368,452 | 243,145,771 | 248,728,821 | 250,069,548 | 252,194,433 | 258,286,973 |
| g. TOTAL ASSETS AND OTHER DEBITS         | 56,153,111   | 57,237,858  | 61,137,033  | 64,809,552  | 68,503,892  | 71,874,089  | 74,980,738  | 78,182,977  | 81,474,091  | 84,824,409  | 88,239,737  |
| h. LIABILITIES AND OTHER CREDITS         | 15,598       | 20,713,531  | 20,327,317  | 19,828,477  | 18,518,726  | 18,102,459  | 18,670,449  | 18,221,571  | 17,754,645  | 17,268,430  | 16,761,616  |
| i. TOTAL MARGINS AND EQUITIES            | 58,788,835   | 68,102,890  | 76,174,884  | 84,142,862  | 90,843,748  | 97,576,743  | 104,039,285 | 110,329,191 | 116,437,789 | 122,359,014 | 128,344,401 |
| j. LONG TERM DEBT - 2% & 3%              | 36,608,485   | 34,684,706  | 32,650,997  | 30,520,027  | 28,304,845  | 26,991,072  | 23,621,210  | 21,161,094  | 18,578,824  | 15,921,481  | 13,117,130  |
| k. LONG TERM DEBT - GUARANTEE            | 21,824,088   | 21,824,088  | 21,824,088  | 21,824,088  | 21,824,088  | 21,824,088  | 21,824,088  | 21,824,088  | 21,824,088  | 21,824,088  | 21,824,088  |
| l. LONG TERM DEBT - OTHER                | 154,460,260  | 202,573,174 | 212,114,331 | 221,325,027 | 229,085,299 | 236,368,452 | 243,145,771 | 248,728,821 | 250,069,548 | 252,194,433 | 258,286,973 |

1 SOURCES OF GENERAL FUNDS

a. NET GENERAL FUNDS BEGINNING OF YEAR

b. CASH MARGINS AFTER DEBT SERVICE

c. OTHER PROCEEDS

d. SALE OF EXCLUDABLE ITEMS

e. REMBURSEMENT FROM PRIORITY LOAN FUNDS

f. REMBURSEMENT FROM SPECIAL LOANS (NON-PRIORITY)

2. TOTAL GENERAL FUNDS AVAILABLE

3. PROPOSED USE OF GENERAL FUNDS

a. PURCHASE OF EXCLUDABLE ITEMS

b. CAPITAL CREDIT RETIREMENTS

c. GENERAL FUNDS INVESTED IN PLANT

d. OTHER USES OF GENERAL FUNDS

e. ADDITIONAL PRINCIPAL PAYMENTS

4. TOTAL PROPOSED USES OF GENERAL FUNDS

5. NET GENERAL FUNDS - END OF YEAR

FINANCIAL FORECAST

|   | 2007       | 2008       | 2009       | 2010       | 2011       | 2012       | 2013        | 2014        | 2015        | 2016        |
|---|------------|------------|------------|------------|------------|------------|-------------|-------------|-------------|-------------|
| a. CASH FROM OPERATIONS BEFORE DEBT SERVICE   | 14,764,033 | 17,986,288 | 18,376,824 | 18,684,544 | 18,914,938 | 19,106,400 | 19,631,712  | 20,144,487  | 20,636,084  | 21,123,171  |
| b. TOTAL DEBT SERVICE                         | 9,180,822  | 9,521,125  | 10,011,852 | 10,522,868 | 11,006,492 | 11,442,529 | 11,903,565  | 12,392,714  | 12,826,070  | 13,333,568  |
| c. CASH MARGINS AFTER DEBT SERVICE            | 5,583,211  | 8,465,163  | 8,364,972  | 8,161,576  | 7,908,446  | 7,663,771  | 7,728,146   | 7,751,773   | 7,810,014   | 7,789,601   |
| d. DEPRECIATION AND AMORTIZATION EXPENSE      | 7,290,297  | 7,509,006  | 7,734,276  | 7,966,304  | 8,205,293  | 8,451,452  | 8,704,996   | 8,966,146   | 9,235,130   | 9,612,184   |
| e. CONSUMER ACCOUNTS AND SALES EXPENSE        | 3,537,955  | 3,644,084  | 3,753,417  | 3,868,020  | 3,982,001  | 4,101,461  | 4,224,505   | 4,351,240   | 4,481,777   | 4,616,230   |
| f. ADM. & GEN. & OTHER DEDUCTIONS EXPENSE     | 3,978,144  | 4,097,488  | 4,220,413  | 4,347,025  | 4,477,436  | 4,611,759  | 4,750,112   | 4,892,615   | 5,039,393   | 5,190,575   |
| g. TAX EXPENSE                                | 95,000     | 97,650     | 100,766    | 103,810    | 106,924    | 110,132    | 113,436     | 116,839     | 120,344     | 123,954     |
| h. INTEREST EXPENSE                           | 5,978,989  | 6,163,107  | 6,450,029  | 6,898,800  | 7,409,449  | 7,103,298  | 7,284,477   | 7,452,227   | 7,600,636   | 7,740,658   |
| i. TOTAL COST OF ELECTRIC SERVICE             | 86,068,203 | 88,596,836 | 90,904,610 | 93,110,347 | 95,116,621 | 97,853,168 | 100,138,234 | 102,311,469 | 104,463,229 | 107,166,498 |
| k. PATRONAGE CAPITAL & OPERATING MARGINS      | 1,374,747  | 4,169,175  | 4,062,519  | 3,884,340  | 3,660,197  | 3,406,649  | 3,492,239   | 3,571,114   | 3,640,318   | 3,705,329   |
| l. NON-OPERATING MARGINS                      | 120,000    | 125,000    | 130,000    | 135,000    | 140,000    | 145,000    | 150,000     | 155,000     | 160,000     | 165,000     |
| m. G&T AND OTHER CAPITAL CREDITS (CFC CTC'S)  | 0          | 0          | 0          | 0          | 0          | 0          | 0           | 0           | 0           | 0           |
| n. TOTAL ACCRUAL MARGINS                      | 1,494,747  | 4,314,175  | 4,192,519  | 4,019,340  | 3,800,197  | 3,551,649  | 3,642,239   | 3,726,114   | 3,800,318   | 3,870,329   |
| (2). OPER. REV. & PATRON. CAP - PRESENT RATES | 86,800,289 | 85,968,336 | 87,859,431 | 89,620,253 | 91,102,188 | 93,446,318 | 95,321,303  | 97,009,024  | 98,654,005  | 100,903,544 |
| b. COST OF POWER                              | 56,269,740 | 57,899,671 | 59,184,500 | 60,383,262 | 61,398,142 | 63,136,668 | 64,412,056  | 65,564,280  | 66,688,794  | 68,366,827  |
| c. OPER. REV. LESS COST OF POWER              | 31,173,210 | 34,886,340 | 35,782,629 | 36,611,424 | 37,378,676 | 38,123,248 | 39,216,417  | 40,318,283  | 41,414,753  | 42,625,000  |
| d. OPERATIONS & MAINTENANCE EXPENSE           | 8,918,078  | 9,185,620  | 9,461,189  | 9,745,025  | 10,037,376 | 10,338,487 | 10,648,652  | 10,968,112  | 11,297,155  | 11,636,070  |
| e. CONSUMER ACCOUNTS AND SALES EXPENSE        | 3,537,955  | 3,644,084  | 3,753,417  | 3,868,020  | 3,982,001  | 4,101,461  | 4,224,505   | 4,351,240   | 4,481,777   | 4,616,230   |
| f. ADM. & GEN. & OTHER DEDUCTIONS EXPENSE     | 3,978,144  | 4,097,488  | 4,220,413  | 4,347,025  | 4,477,436  | 4,611,759  | 4,750,112   | 4,892,615   | 5,039,393   | 5,190,575   |
| g. DEPRECIATION AND AMORTIZATION EXPENSE      | 7,290,297  | 7,509,006  | 7,734,276  | 7,966,304  | 8,205,293  | 8,451,452  | 8,704,996   | 8,966,146   | 9,235,130   | 9,612,184   |
| h. TAX EXPENSE                                | 95,000     | 97,650     | 100,766    | 103,810    | 106,924    | 110,132    | 113,436     | 116,839     | 120,344     | 123,954     |
| i. INTEREST EXPENSE                           | 5,978,989  | 6,163,107  | 6,450,029  | 6,898,800  | 7,409,449  | 7,103,298  | 7,284,477   | 7,452,227   | 7,600,636   | 7,740,658   |
| j. TOTAL COST OF ELECTRIC SERVICE             | 86,068,203 | 88,596,836 | 90,904,610 | 93,110,347 | 95,116,621 | 97,853,168 | 100,138,234 | 102,311,469 | 104,463,229 | 107,166,498 |
| k. PATRONAGE CAPITAL & OPERATING MARGINS      | 1,374,747  | 4,169,175  | 4,062,519  | 3,884,340  | 3,660,197  | 3,406,649  | 3,492,239   | 3,571,114   | 3,640,318   | 3,705,329   |
| l. NON-OPERATING MARGINS                      | 120,000    | 125,000    | 130,000    | 135,000    | 140,000    | 145,000    | 150,000     | 155,000     | 160,000     | 165,000     |
| m. G&T AND OTHER CAPITAL CREDITS (CFC CTC'S)  | 0          | 0          | 0          | 0          | 0          | 0          | 0           | 0           | 0           | 0           |
| n. TOTAL ACCRUAL MARGINS                      | 1,494,747  | 4,314,175  | 4,192,519  | 4,019,340  | 3,800,197  | 3,551,649  | 3,642,239   | 3,726,114   | 3,800,318   | 3,870,329   |
| (1). ACCRUAL BASIS                            | 642,661    | 6,817,675  | 7,107,698  | 7,374,434  | 7,674,620  | 7,813,498  | 8,309,170   | 8,873,559   | 9,449,543   | 9,988,283   |

FINANCIAL FORECAST

RUS FORM 325C - STATEMENT OF OPERATIONS

RUS FORM 325D - GENERAL FUNDS SUMMARY

ANNUAL STATUS REPORT  
FOR THE YEAR 2006

Date of Report: 4/4/2007

A. Results of Operations for the most recent calendar year of 2006

| <u>Key Ratios</u>                                | <u>Beginning<br/>of Year</u>                         | <u>End of<br/>Year</u>                                  |
|--|--|---|
| Equity Capitalization Ratio<br>(No GTCC's)       | <u>27.14%</u>  | <u>25.62%</u>   |
| Current Ratio                                    | <u>1.21</u>  | <u>1.19</u>   |
|  | <u>With Affiliate<br/>Income/(Loss)<br/>Included</u> | <u>Without Affiliate<br/>Income/(Loss)<br/>Included</u> |
| Time Interest Earned Ratio (TIER)<br>(No GTCC's) | <u>0.74</u>  | <u>0.73</u>   |
| Debt Service Coverage (DSC)                      | <u>1.16</u>  | <u>1.15</u>   |

B. Capital Credit Retirements made during the year.

|  |                     |
|--|---------------------|
| Amount of Payments to Deceased or Estates    | <u>\$404,555</u>    |
| Amount of General Retirements                | <u>\$0</u>          |
| Total Amount of Capital Credits Retired      | <u>\$404,555</u>    |
| Basis for the Amount of Capital Credits Paid |                     |
| 1. Previous years margins                    | <u>-\$1,447,653</u> |
| 2. Less GTCC's                               | <u>\$0</u>          |
| 3. Amount of equity for capital credits      | <u>-\$1,447,653</u> |
| 4. Capital Credits to be paid (.25 * Item 3) | <u>-\$361,913</u>   |

C. No capital credits to be rotated this year.

|                             |               |
|-----------------------------|---------------|
| 1. Equity ratio (No GTCC's) | <u>25.62%</u> |
| 2. TIER ratio (No GTCC's)   | <u>0.74</u>   |

D. Completion date of most recent Ten Year Financial Forecast 4/4/2007

**JACKSON ENERGY COOP UTILTY CORPORATION**

KY 3 JACKSON

0

Mark Keene

April 4, 2008

**FINANCIAL FORECAST**

RUS FORM 326A- RATIOS

LAST YEAR ..... FUTURE YEARS

|  | 2005        | 2006        | 2007        | 2008        | 2009        | 2010        | 2011        | 2012        | 2013        | 2014        | 2015        |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| 1. EQUITY RATIO (WITH ADD. REV.) (%)                               | 30.09       | 30.08       | 30.38       | 30.83       | 31.24       | 31.74       | 32.19       | 32.57       | 33.00       | 33.47       | 33.97       |
| 2a. OPERATING DSC (including op. margins + G&T & lender Ccs paid)  | 1.79        | 1.84        | 1.88        | 1.84        | 1.78        | 1.72        | 1.67        | 1.62        | 1.60        | 1.59        | 1.57        |
| 3a. OPERATING TIER (including op. margins + G&T & lender Ccs paid) | 2.06        | 1.84        | 1.75        | 1.70        | 1.65        | 1.60        | 1.55        | 1.50        | 1.50        | 1.50        | 1.50        |
| 4. AVERAGE REVENUE PER KWH SOLD (CENTS)                            | 8.39        | 8.64        | 8.67        | 8.61        | 8.63        | 8.62        | 8.50        | 8.47        | 8.48        | 8.48        | 8.49        |
| 5. INCREASE IN AVERAGE REVENUE PER KWH SOLD (%)                    | 2.95        | 0.32        | -0.63       | -0.91       | -0.23       | -0.10       | -0.37       | 0.12        | 0.07        | 0.07        | 0.11        |
| 6. TOTAL UTILITY PLANT PER KWH SOLD (CENTS)                        | 17.90       | 18.06       | 17.90       | 17.89       | 17.88       | 17.84       | 17.85       | 17.81       | 17.85       | 17.80       | 17.88       |
| 7. NET GENERAL FUNDS TO TOTAL UTILITY PLANT (%)                    | 1.09        | 4.19        | 7.64        | 9.72        | 12.64       | 15.34       | 17.75       | 19.78       | 21.57       | 23.12       | 24.44       |
| 8. ACCUM. PROV. FOR DEPR. & AMORT. TO T.U.P. (%)                   | 19.55       | 20.63       | 21.64       | 22.90       | 25.74       | 29.31       | 32.02       | 34.31       | 36.60       | 39.02       | 41.44       |
| 9. OPERATIONS & MAINTENANCE EXP. PER CONSUMER (\$)                 | 137.63      | 161.47      | 162.07      | 162.99      | 164.26      | 165.40      | 166.80      | 168.64      | 170.66      | 172.65      | 174.64      |
| 10. ADMIN. & GEN. EXPENSE PER CONSUMER (\$)                        | 66.65       | 60.69       | 60.89       | 61.20       | 61.55       | 61.89       | 62.56       | 63.25       | 64.17       | 65.18       | 66.18       |
| 11. PLANT REVENUE RATIO  | 5.82        | 5.53        | 5.44        | 5.53        | 5.57        | 5.59        | 5.62        | 5.66        | 5.66        | 5.66        | 5.67        |
| 12. RATE OF RETURN ON RATE BASE (WITH ADD. REV.) (%)               | 6.56        | 6.50        | 6.49        | 6.50        | 6.50        | 6.50        | 6.46        | 6.38        | 6.50        | 6.61        | 6.69        |
| 13. RATE BASE = 104% OF NET UTILITY PLANT                          | 147,073,913 | 161,466,789 | 166,482,881 | 169,237,688 | 160,754,133 | 162,066,576 | 163,418,393 | 164,810,765 | 166,244,907 | 167,722,076 | 169,203,898 |
| 14. INCREASE OVER PRESENT RETAIL RATES REQUIRED (%)                | 0.76        | 1.72        | 1.36        | 1.02        | 0.82        | 0.66        | 0.52        | 0.44        | 0.44        | 0.44        | 0.44        |
| 15. MODIFIED DSC (FOR RUS USE)                                     | 1.80        | 1.90        | 1.85        | 1.79        | 1.73        | 1.68        | 1.63        | 1.61        | 1.61        | 1.61        | 1.61        |
| 16. MODIFIED TIER (NET OF G&T & OTHER CAP. CREDITS)                | 1.84        | 1.75        | 1.70        | 1.65        | 1.60        | 1.55        | 1.50        | 1.50        | 1.50        | 1.50        | 1.50        |

**FINANCIAL FORECAST**

RUS FORM 326B - PRO FORMA BALANCE SHEET

LAST YEAR ..... FUTURE YEARS

|  | 2005        | 2006        | 2007        | 2008        | 2009        | 2010        | 2011        | 2012        | 2013        | 2014        | 2015        |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| 1. ASSETS AND OTHER DEBITS               | 167,845,414 | 175,778,265 | 183,488,543 | 192,027,128 | 198,598,931 | 204,202,888 | 209,839,963 | 215,751,161 | 221,944,676 | 228,429,004 | 235,212,884 |
| a. TOTAL UTILITY PLANT                   | 31,065,900  | 34,369,041  | 37,555,876  | 41,562,819  | 45,455,887  | 49,631,506  | 54,006,717  | 58,818,081  | 63,472,786  | 68,678,132  | 73,941,638  |
| b. ACCUM. PROVISION FOR DEPREC. & AMORT. | 136,779,514 | 141,417,224 | 145,630,667 | 150,464,309 | 153,113,064 | 154,671,282 | 155,833,246 | 157,133,070 | 158,471,889 | 159,850,872 | 161,271,226 |
| c. NET UTILITY PLANT                     | 1,836,654   | 7,370,240   | 14,025,066  | 18,655,662  | 25,100,597  | 31,316,650  | 37,251,744  | 42,671,099  | 47,871,084  | 52,802,084  | 57,480,045  |
| d. GENERAL FUNDS EXCLUDABLE ITEMS        | 2,203,888   | 2,203,888   | 2,203,888   | 2,203,888   | 2,203,888   | 2,203,888   | 2,203,888   | 2,203,888   | 2,203,888   | 2,203,888   | 2,203,888   |
| e. OTHER ASSETS AND DEBITS               | 49,121,959  | 49,121,959  | 49,121,959  | 49,121,959  | 49,121,959  | 49,121,959  | 49,121,959  | 49,121,959  | 49,121,959  | 49,121,959  | 49,121,959  |
| f. TOTAL ASSETS AND OTHER DEBITS         | 189,842,025 | 200,113,322 | 210,981,490 | 220,445,827 | 229,539,518 | 237,213,789 | 244,410,848 | 251,130,026 | 257,668,830 | 263,978,813 | 270,087,128 |
| 2. LIABILITIES AND OTHER CREDITS         | 57,154,567  | 60,193,038  | 64,097,242  | 67,955,274  | 71,704,700  | 75,291,518  | 78,668,021  | 81,803,129  | 85,031,423  | 88,346,076  | 91,737,286  |
| a. TOTAL MARGINS AND EQUITIES            | 53,419      | 22,178      | 10,837,043  | 10,657,728  | 10,277,438  | 9,987,883   | 9,723,480   | 9,444,963   | 9,161,205   | 8,871,017   | 8,573,134   |
| b. LONG TERM DEBT - RUS                  | 11,441,187  | 11,128,467  | 10,837,043  | 10,657,728  | 10,277,438  | 9,987,883   | 9,723,480   | 9,444,963   | 9,161,205   | 8,871,017   | 8,573,134   |
| (1) LONG TERM DEBT - 2% & 5%             | 53,419      | 22,178      | 10,837,043  | 10,657,728  | 10,277,438  | 9,987,883   | 9,723,480   | 9,444,963   | 9,161,205   | 8,871,017   | 8,573,134   |
| (2) LONG TERM DEBT - 5%, MUNI & TREASURY | 11,441,187  | 11,128,467  | 10,837,043  | 10,657,728  | 10,277,438  | 9,987,883   | 9,723,480   | 9,444,963   | 9,161,205   | 8,871,017   | 8,573,134   |
| (3) LONG TERM DEBT - GUARANTEE           | 59,740,021  | 69,342,988  | 78,865,619  | 86,664,639  | 94,499,893  | 101,161,443 | 107,647,898 | 113,956,402 | 120,084,397 | 126,022,817 | 131,762,142 |
| c. LONG TERM DEBT - OTHER                | 39,190,322  | 37,063,184  | 35,029,187  | 32,905,687  | 30,694,888  | 28,400,446  | 26,008,952  | 23,563,034  | 21,029,306  | 18,376,404  | 16,652,066  |
| d. OTHER LIABILITIES AND CREDITS         | 22,362,499  | 22,362,499  | 22,362,499  | 22,362,499  | 22,362,499  | 22,362,499  | 22,362,499  | 22,362,499  | 22,362,499  | 22,362,499  | 22,362,499  |
| e. TOTAL LIABILITIES AND OTHER CREDITS   | 189,842,025 | 200,113,322 | 210,981,490 | 220,445,827 | 229,539,518 | 237,213,789 | 244,410,848 | 251,130,026 | 257,668,830 | 263,978,813 | 270,087,128 |

|  | 2006      | 2007       | 2008       | 2009       | 2010       | 2011       | 2012       | 2013       | 2014       | 2015       |
|--|-----------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| 1. SOURCES OF GENERAL FUNDS                        |           |            |            |            |            |            |            |            |            |            |
| a. NET GENERAL FUNDS BEGINNING OF YEAR             | 1,838,654 | 7,370,240  | 14,025,066 | 18,655,662 | 25,100,697 | 31,316,650 | 37,251,744 | 42,671,099 | 47,871,084 | 52,802,084 |
| b. CASH MARGINS AFTER DEBT SERVICE                 | 6,864,438 | 8,020,103  | 8,031,181  | 7,881,738  | 7,890,010  | 7,447,170  | 7,210,542  | 7,278,509  | 7,305,329  | 7,366,820  |
| c. OTHER PROCEEDS                                  | 0         | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| d. SALE OF EXCLUDABLE ITEMS                        | 0         | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| e. REIMBURSEMENT FROM PRIORITY LOAN FUNDS          | 0         | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| f. REIMBURSEMENT FROM SPECIAL LOANS (NON-PRIORITY) | 0         | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| 2. TOTAL GENERAL FUNDS AVAILABLE                   | 8,701,092 | 15,390,343 | 22,056,247 | 26,537,400 | 32,790,607 | 38,763,820 | 44,462,287 | 49,949,608 | 55,176,413 | 60,168,904 |
| 3. PROPOSED USE OF GENERAL FUNDS                   |           |            |            |            |            |            |            |            |            |            |
| a. PURCHASE OF EXCLUDABLE ITEMS                    | 0         | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| b. CAPITAL CREDIT RETIREMENTS                      | 350,000   | 1,010,277  | 3,040,585  | 1,071,803  | 1,103,957  | 1,137,076  | 1,411,188  | 1,893,524  | 1,984,329  | 2,283,859  |
| c. GENERAL FUNDS INVESTED IN PLANT                 | 880,651   | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| d. OTHER USES OF GENERAL FUNDS                     | 0         | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| e. ADDITIONAL PRINCIPAL PAYMENTS                   | 0         | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| 4. TOTAL PROPOSED USES OF GENERAL FUNDS            | 1,330,651 | 1,366,277  | 3,400,585  | 1,436,803  | 1,473,957  | 1,512,076  | 1,791,188  | 2,078,524  | 2,374,329  | 2,878,859  |
| 5. NET GENERAL FUNDS - END OF YEAR                 | 7,370,240 | 14,025,066 | 18,655,662 | 25,100,697 | 31,316,650 | 37,251,744 | 42,671,099 | 47,871,084 | 52,802,084 | 57,490,045 |

FINANCIAL FORECAST RUS FORM 325D - GENERAL FUNDS SUMMARY

|   | 2006       | 2007       | 2008       | 2009       | 2010       | 2011        | 2012        | 2013        | 2014        | 2015        |
|---|------------|------------|------------|------------|------------|-------------|-------------|-------------|-------------|-------------|
| 1. ACCRUAL BASIS                                      |            |            |            |            |            |             |             |             |             |             |
| a (1). ADDITIONAL REVENUE REQUIREMENTS FOR TERMEQUITY | 622,960    | 1,505,001  | 1,244,489  | 977,466    | 808,004    | 664,081     | 537,112     | 679,947     | 768,284     | 908,295     |
| (2). OPER. REV. & PATRON. CAP. - PRESENT RATES        | 83,497,611 | 87,324,284 | 91,217,416 | 95,423,747 | 98,298,916 | 100,930,169 | 103,523,121 | 106,617,995 | 108,360,282 | 112,061,364 |
| b. COST OF POWER                                      | 62,332,190 | 56,096,971 | 67,711,387 | 60,717,123 | 60,240,464 | 64,248,853  | 66,240,464  | 69,967,918  | 69,797,918  | 71,484,011  |
| c. OPER. REV. LESS COST OF POWER                      | 31,788,081 | 33,733,314 | 34,750,518 | 35,694,089 | 36,546,466 | 37,345,987  | 38,119,779  | 39,240,024  | 40,364,703  | 41,486,649  |
| d. OPERATIONS & MAINTENANCE EXPENSE                   | 8,365,234  | 8,605,881  | 8,864,068  | 9,129,990  | 9,403,890  | 9,686,007   | 9,976,587   | 10,276,885  | 10,584,162  | 10,901,687  |
| e. CONSUMER ACCOUNTS AND SALES EXPENSE                | 3,765,818  | 3,899,393  | 4,016,376  | 4,136,866  | 4,260,972  | 4,388,801   | 4,520,465   | 4,656,079   | 4,795,761   | 4,939,634   |
| f. ADM. & GEN. & OTHER DEDUCTIONS EXPENSE             | 4,170,282  | 4,285,401  | 4,424,263  | 4,556,981  | 4,693,701  | 4,834,512   | 4,979,547   | 5,128,833   | 5,282,801   | 5,441,285   |
| g. DEPRECIATION AND AMORTIZATION EXPENSE              | 6,793,141  | 6,996,836  | 7,206,843  | 7,423,048  | 7,645,739  | 7,875,111   | 8,111,364   | 8,354,705   | 8,605,346   | 8,863,606   |
| h. TAX EXPENSE  | 86,000     | 87,560     | 90,177     | 92,882     | 95,668     | 98,538      | 101,494     | 104,639     | 107,675     | 110,905     |
| i. INTEREST EXPENSE                                   | 5,294,486  | 5,678,939  | 6,025,760  | 6,329,886  | 6,604,697  | 6,820,216   | 7,030,216   | 7,228,588   | 7,409,306   | 7,572,421   |
| j. TOTAL COST OF ELECTRIC SERVICE                     | 80,816,161 | 84,880,080 | 88,336,873 | 92,386,787 | 95,255,102 | 97,952,737  | 100,960,126 | 103,704,648 | 106,648,913 | 109,313,449 |
| k. PATRONAGE CAPITAL & OPERATING MARGINS              | 3,304,111  | 4,169,205  | 4,123,032  | 4,014,426  | 3,851,818  | 3,641,603   | 3,400,107   | 3,493,294   | 3,679,653   | 3,656,211   |
| l. NON-OPERATING MARGINS                              | 84,360     | 90,000     | 95,000     | 100,000    | 105,000    | 110,000     | 115,000     | 120,000     | 125,000     | 130,000     |
| m. G&T AND OTHER CAPITAL CREDITS (CFC CTC'S)          | 0          | 0          | 0          | 0          | 0          | 0           | 0           | 0           | 0           | 0           |
| n. TOTAL ACCRUAL MARGINS                              | 3,388,471  | 4,259,205  | 4,218,032  | 4,114,426  | 3,956,818  | 3,751,603   | 3,515,107   | 3,613,294   | 3,704,653   | 3,786,211   |
| 2. CASH BASIS   |            |            |            |            |            |             |             |             |             |             |
| a. CASH FROM OPERATIONS BEFORE DEBT SERVICE           | 15,476,097 | 16,935,079 | 17,450,635 | 17,667,360 | 18,197,254 | 18,447,529  | 18,656,686  | 19,194,588  | 19,719,304  | 20,222,138  |
| b. TOTAL DEBT SERVICE                                 | 8,611,659  | 8,914,976  | 9,419,454  | 9,895,622  | 10,507,243 | 11,000,359  | 11,446,144  | 11,916,078  | 12,413,975  | 12,855,318  |
| c. CASH MARGINS AFTER DEBT SERVICE                    | 6,864,438  | 8,020,103  | 8,031,181  | 7,881,738  | 7,690,010  | 7,447,170   | 7,210,542   | 7,278,509   | 7,305,329   | 7,366,820   |

FINANCIAL FORECAST RUS FORM 325C - STATEMENT OF OPERATIONS

JACKSON ENERGY COOPERATIVE

ANNUAL STATUS REPORT  
FOR THE YEAR 2005

Date of Report: 4/10/2006

A. Results of Operations for the most recent calendar year of 2005

Key Ratios

|  | <u>Beginning<br/>of Year</u>                         | <u>End of<br/>Year</u>                                  |
|--|--|---|
| Equity Capitalization Ratio<br>(No GTCC's)       | <u>26.11%</u>  | <u>27.14%</u>   |
| Current Ratio                                    | <u>1.01</u>  | <u>1.21</u>   |
|  | <u>With Affiliate<br/>Income/(Loss)<br/>Included</u> | <u>Without Affiliate<br/>Income/(Loss)<br/>Included</u> |
| Time Interest Earned Ratio (TIER)<br>(No GTCC's) | <u>2.06</u>  | <u>2.04</u>   |
| Debt Service Coverage (DSC)                      | <u>1.66</u>  | <u>1.65</u>   |

B. Capital Credit Retirements made during the year.

|   |                    |
|---|--------------------|
| Amount of Payments to Deceased or Estates           | <u>\$339,867</u>   |
| Amount of General Retirements                       | <u>\$0</u>         |
| Total Amount of Capital Credits Retired             | <u>\$339,867</u>   |
| <b>Basis for the Amount of Capital Credits Paid</b> |                    |
| 1. Previous years margins                           | <u>\$4,624,206</u> |
| 2. Less GTCC's                                      | <u>\$0</u>         |
| 3. Amount of equity for capital credits             | <u>\$4,624,206</u> |
| 4. Capital Credits to be paid (.25 * Item 3)        | <u>\$1,156,052</u> |

C. No capital credits to be rotated this year.

|                             |               |
|-----------------------------|---------------|
| 1. Equity ratio (No GTCC's) | <u>27.14%</u> |
| 2. TIER ratio (No GTCC's)   | <u>2.06</u>   |

D. Completion date of most recent Ten Year Financial Forecast 4/4/2006





**RESPONSE TO COMMISSION'S STAFF SECOND DATA REQUEST**

**LOAN FUNDS**

- Q. Refer to Item 37 of Jackson Energy's response to the Staff's initial data request.
- a. Explain whether the \$4,140,000 in loan funds that Jackson Energy estimated would be advanced around December 31, 2007 has been advanced.
  - b. Explain whether the last sentence in the response "These funds will be used to repay the short-term borrowings used to finance construction projects" refers only to the December 31, 2007 advance or to that advance and May 2, 2007 advance of \$8,200,000.
- R
- a. The \$4,140,000 in loan funds to be advanced on or about December 31, 2007 has not been advanced.
  - b. The statement "These funds will be used to repay the short-term borrowings used to finance construction projects" refers to both advances.



Jackson Energy Cooperative

Case No. 2007-00333

Second Data Request of Commission Staff

25. Refer to Item 48, subsection (e), of Jackson Energy's response to the Staff's initial data request. Two columns show compensation received by Donald Schaefer, one for "Compensation charged to subsidiary" and one for "Compensation received from Jackson Energy." Clarify whether Mr. Schaefer's total compensation is the sum of the amounts in the two columns or the amount in column "Compensation received from Jackson Energy.

**Response**

Mr. Schaefer's total compensation is "Compensation received from Jackson Energy." The amount listed in "Compensation charged to subsidiary" is the amount of the compensation received from Jackson Energy that was charged to the subsidiary for the test year.



Jackson Energy Cooperative  
Case No. 2007-00333  
Second Data Request of Commission Staff

26. refer to Item 49 of Jackson Energy's response to the Staff's initial data request.

a. Explain whether the lines "2005, 2004, 2003" reflect income from subsidiaries for the 12 months ending December 31 of those years or for 12 months ending at some other time during those years.

**Response**

The income reported is for the 12 months ending December 31 for each subsidiary.

b. Provide the income received from subsidiaries for the same 12 calendar months for 2006 as has been provided for 2005, 2004, and 2003.

**Response**

The amount reported for the test year is the same as for the 12 months ending December 31, 2006.



**RESPONSE TO THE COMMISSION STAFF'S SECOND DATA REQUEST**

**APPLICATION OF COST ALLOCATION MANUAL**

- Q. Refer to pages 36-38 of Commission's May 21, 2001 Order in Case No. 2000-00373, and pages 33-40 of MCS Report. The report indicates that Jackson Energy had properly addressed the issue from the rate case concerning the allocation of costs to its subsidiaries by developing and operating within a formal cost allocation manual, ("CAM"). Explain whether Jackson Energy is continuing to operate under the CAM it had developed at the time of MCS Report, as amended in its September 1, 2006 filing with the PSC, and whether there have been any changes to the CAM since September 2006.
- R. Jackson Energy continues to operate under the CAM it had developed at the time of MCS Report and as amended in September 1, 2006. There have been no changes to the CAM since the September 1, 2006 filing.





**RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST**

**FOCUSED MANAGEMENT AUDIT**

- Q Regard MCS's report on Jackson Energy's focused management audit,
- a. The Commission's records indicate that the cost of the audit exceeded \$57,000. What was Jackson Energy's total cost for the management audit?
- R a. The cost of this management audit was \$57,443.86.
- Q b How did Jackson Energy record the cost of the audit on its books?
- R b This cost was recorded in Account NO. 923.0 as it was incurred.
- Q c Explain why Jackson Energy did not propose to begin recovery of this costs of its focused management audit in this rate case.
- R c Jackson Energy did not propose to begin recovery of this cost in this rate case because of oversight by JECC. JECC feels that revenue requirements would have been increased by \$19,148 assuming a three year amortization period.