



Ernie Fletcher
Governor

Teresa J. Hill, Secretary
Environmental and Public
Protection Cabinet

Timothy J. LeDonne
Commissioner
Department of Public Protection

Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P. O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

Mark David Goss
Chairman

John W. Clay
Vice Chairman

Caroline Pitt Clark
Commissioner

November 26, 2007

PARTIES OF RECORD:
Case No. 2007-00374
South Kentucky RECC

Attached is a copy of the informal conference memorandum which is being filed in the record of the above-referenced case. If you wish to make any comments regarding the contents of the memorandum, please do so within five days of receipt of this letter. Should you have any questions regarding the memorandum, please contact Quang Nguyen at 502/564-3940, Extension 256.

Sincerely,


Beth O'Donnell
Executive Director

QN:v

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Main Case File -- Case No. 2007-00374

FROM: Quang D. Nguyen, Staff Attorney

DATE: November 26, 2007

RE: Application of South Kentucky Rural Electric Cooperative Corporation for Approval to Purchase the Fixed Assets of the Monticello Electric Plant Board, Monticello, KY

Pursuant to the Commission's Order dated November 9, 2007, an informal conference was held on November 14, 2007, at the Commission's offices located at 211 Sower Boulevard, Frankfort, Kentucky. In attendance at the informal conference were representatives of South Kentucky Rural Electric Cooperative Corporation ("South Kentucky"), the Office of the Attorney General ("AG"), and Commission Staff. A list of the attendees is attached to this memo.

The purpose of the meeting was to discuss the following two issues: (1) the justification for a purchase price in excess of net book value and (2) the legality of the asset sale. With respect to the first issue, South Kentucky stated that the purchase price for Monticello Electric Plant Board's ("MEPB") fixed assets was a result of a negotiated process. South Kentucky is of the belief that the purchase price is fair, just and reasonable particularly when considering that East Kentucky Power Cooperative, Inc. ("EKPC") has agreed to purchase for \$1.2 million a distribution substation, which is currently owned by MEPB, and is part of the transferring assets. The funds from the sale of the substation to EKPC will be used to offset the initial purchase price paid by South Kentucky to MEPB. South Kentucky further justified the purchase price by indicating that the acquisition would enable it to forgo constructing a branch office in Monticello given that it would utilize MEPB's existing office building as its new Monticello branch office. South Kentucky stated that this would allow it to save \$2.2 million. South Kentucky also stated that it is currently incurring capital costs of \$2,000 to \$2,200 for each new customer added, whereas the acquisition of MEPB's customer base represents an investment of approximately \$500 per customer.

South Kentucky's justification for the purchase price notwithstanding, Commission Staff advised South Kentucky that the Commission has historically refused to recognize in rates a utility plant acquisition adjustment resulting from the payment of a purchase price above net book value. South Kentucky acknowledges such treatment but stated that it did not intend to seek recovery of an acquisition adjustment of this transaction in its next rate case.

With respect to the issue of the legality of the asset sale, South Kentucky referred to its legal memorandum which it filed on November 13, 2007. South Kentucky argued that the sale of the MEPB fixed assets comported with all applicable Kentucky laws. In particular, South Kentucky maintained that the provisions of KRS 82.083 did not apply to the instant transaction but that KRS 96.860 was controlling. South Kentucky further maintained that all requirements imposed by KRS 96.860 had been satisfied.

The AG indicated that he would need until November 21, 2007 to determine whether he disagreed with South Kentucky's position on the legality of the asset sale. The AG stated that he would not request a hearing and that any comments or a legal memorandum would be filed by November 21, 2007. South Kentucky would then file any reply comments on or before November 28, 2007.

Concerning the integration of MEPB's customers into South Kentucky's rates beginning in January 2009, Commission Staff informed South Kentucky that, if approved, it would need to file, as part of the record in this case, a tariff with language setting forth MEPB's customers on Tennessee Valley Authority's ("TVA") rates with an expiration date of December 31, 2008. Commission Staff further advised that South Kentucky must include in that tariff a TVA fuel adjustment mechanism and file with the Commission any notices from TVA regarding any increase in TVA's rates during that period of time when MEPB's customers are still on TVA's rates. South Kentucky agreed to file such a tariff and also agreed that the Commission would have authority over the rates and service applicable to MEPB's customers upon closing the transfer even though their wholesale power supplier would continue to be the TVA through November 2008.

There being no further questions, the informal conference was adjourned.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF SOUTH KENTUCKY RURAL)
ELECTRIC COOPERATIVE CORPORATION)
FOR APPROVAL TO PURCHASE THE FIXED) CASE NO. 2007-00374
ASSETS OF THE MONTICELLO ELECTRIC)
PLANT BOARD, MONTICELLO, KY)

=====
November 14, 2007 Informal Conference
=====

Please sign in:

NAME

REPRESENTING

<u>Quang D. Nguyen</u>	<u>PSC</u>
<u>Edie Russell</u>	<u>PSC</u>
<u>Lawry Cook</u>	<u>OAG</u>
<u>Dennis Howard</u>	<u>"</u>
<u>Jim Adkins</u>	<u>SKRECC</u>
<u>Alben Appleton</u>	<u>SKRECC</u>
<u>Jeff Hill</u>	<u>SKRECC</u>
<u>Dave Sanders</u>	<u>SKRECC Attorney</u>
<u>Chris Whelan</u>	<u>PSC</u>
<u>RICHARD RAFF</u>	<u>PSC-LEGAL</u>
<u> </u>	<u> </u>
<u> </u>	<u> </u>
<u> </u>	<u> </u>
<u> </u>	<u> </u>
<u> </u>	<u> </u>

AUCH ANDERSON
Manager
South Kentucky R.E.C.C.
P. O. Box 910
925-929 N. Main Street
Somerset, KY 42502-0910

Lawrence W. Cook
Assistant Attorney General
Office of the Attorney General
Utility & Rate Intervention Division
1024 Capital Center Drive
Suite 200
Frankfort, KY 40601-8204

Honorable Darrell L. Saunders, P.S.C.
Attorney at Law
700 Master Street
P.O. Box 1324
Corbin, KY 40702