

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED  
SEP 21 2007  
PUBLIC SERVICE  
COMMISSION

In the Matter of:

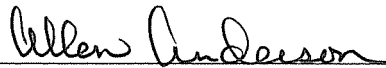
APPLICATION OF SOUTH KENTUCKY RURAL )  
ELECTRIC COOPERATIVE CORPORATION FOR ) CASE NO.  
THE APPROVAL TO PURCHASE THE FIXED ) 2007-00374  
ASSETS OF THE MONTICELLO ELECTRIC )  
PLANT BOARD )

RESPONSE TO COMMISSION STAFF'S  
FIRST DATA REQUEST

Comes South Kentucky Rural Electric Cooperative Corporation ("South Kentucky" or "SKRECC") and files with the Commission an original and six (6) copies of the attached response to the Commission Staff's First Data Request to South Kentucky Rural Electric Cooperative Corporation dated and served on September 14, 2007. Each copy has been placed in a bound volume with each item separately tabbed.

CERTIFICATION

The undersigned, Allen Anderson, states that he is the President and Chief Executive Officer of South Kentucky Rural Electric Cooperative Corporation; that he supervised the preparation of the within response; and certifies that the within response is true and accurate to the best of his knowledge, information and belief formed after reasonable inquiry.



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ALLEN ANDERSON  
PRESIDENT & CEO  
SOUTH KENTUCKY RURAL ELECTRIC  
COOPERATIVE CORPORATION  
SOMERSET, KENTUCKY 42501  
(606) 451-4123

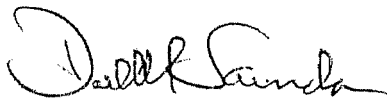


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DARRELL L. SAUNDERS  
ATTORNEY FOR SOUTH KENTUCKY  
RURAL ELECTRIC COOPERATIVE  
CORPORATION  
700 MASTER STREET  
P.O. BOX 1324  
CORBIN, KENTUCKY 40702  
(606) 523-1370 TELEPHONE  
(606) 523-1372 FACSIMILE

CERTIFICATE OF SERVICE

I hereby certify that the original and six (6) true and correct copies of the above and foregoing were on this 21st day of September, 2007 personally delivered to the Public Service Commission, 211 Sower Blvd., P.O. Box 615, Frankfort, KY 40602-0615. I further certify that I have received no notice from the Public Service Commission that any other party is involved in this action.



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ATTORNEY FOR SOUTH KENTUCKY RURAL  
ELECTRIC COOPERATIVE CORPORATION



RESPONSE TO COMMISSION STAFF'S FIRST DATA REQUEST

MONTICELLO ELECTRIC PLANT BOARD

	<u>Number of Customers</u>
Residential	2,770
Gen Power - 50kW & Under	566
Gen Power - Over 50 kW	93
Street and Athletic	6
Outdoor Lighting	45
<b>TOTAL</b>	<b>3,480</b>

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

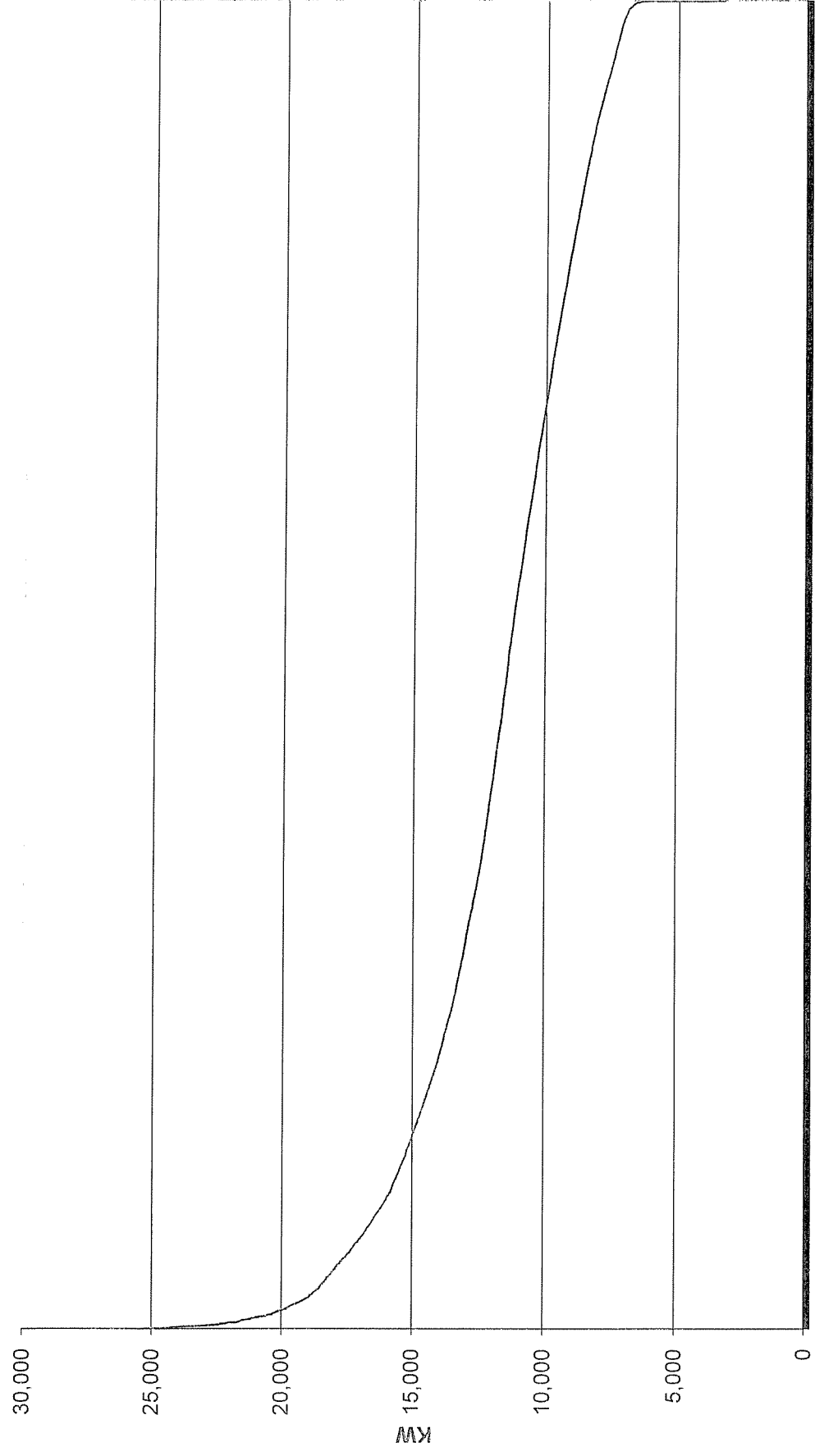
Q. b. The most currently available load factor, load duration curves, customer density per mile of distribution line, and other operating and system characteristics of MEPB.

R B. The MEPB load factor for the 12 months ending June 2007 is 46%.  
The customer density per mile of line as of June 2007 is 39.48 customers.  
System line losses for the 12 month period ending June 2007 is 4.84%.

Attached as page of this response is the load duration curve for the MEPB for the 12 month period ending June 2007.

It 116  
Pac 2 of 2  
Witness: Jim Adkins

Monticello Load Duration Curve  
For June 18, 2006 through June 17, 2007



1 350 699 1048 1397 1746 2095 2444 2793 3142 3491 3840 4189 4538 4887 5236 5585 5934 6283 6632 6981 7330 7679 8028 8377 8726

RESPONSE TO COMMISSION STAFF'S FIRST DATA REQUEST

MONTICELLO ELECTRIC PLANT BOARD

	<u>FY Ending June 2004</u>		<u>FY Ending June 2005</u>		<u>FY Ending June 2006</u>		<u>FY Ending June 2007</u>	
	Sales	KWH	Sales	KWH	Sales	KWH	SALES	KWH
Total Sales & KWH'S Per Class								
Residential	\$ 2,495,418.59	38,601,478	\$ 2,460,060.86	37,377,052	\$ 2,772,838.38	39,238,688	\$ 2,961,075.71	39,229,355
Gen Power - 50kW & Under	697,239.29	9,619,401	691,320.65	9,365,767	806,497.92	10,152,398	867,425.82	10,203,226
Gen Power - Over 50 kW	2,871,039.63	48,584,129	2,902,556.74	48,841,464	3,150,102.38	49,034,118	3,429,028.20	47,732,119
Street and Athletic	55,239.05	1,005,473	53,064.50	945,952	55,478.73	938,642	56,829.69	920,394
Outdoor Lighting	68,316.27	645,543	70,897.56	665,547	76,320.15	688,182	80,911.54	711,134
<b>TOTAL</b>	\$ 6,187,252.83	98,456,024	\$ 6,177,900.31	97,195,782	\$ 6,861,237.56	100,052,028	\$ 7,395,270.96	98,796,228





SOUTH KENTUCKY RECC  
CASE NO. 2007-00374

Item No. 2a  
Page 1 of 1  
Witness: Jim Adkins

RESPONSE TO COMMISSION STAFF'S FIRST DATA REQUEST

SOUTH KENTUCKY RECC

	<u>Number of Customers</u>
Residential	57,468
Gen Power - 50kW & Under	3,714
Gen Power - Over 50 kW	422
Public St. & Highway Lighting	21
Other Sales To Public Auth.	731
<b>TOTAL</b>	<b>62,356</b>

Customer Density Per Mile of Distr. Line

**SOUTH KENTUCKY RECC  
CASE NO. 2007-00374**

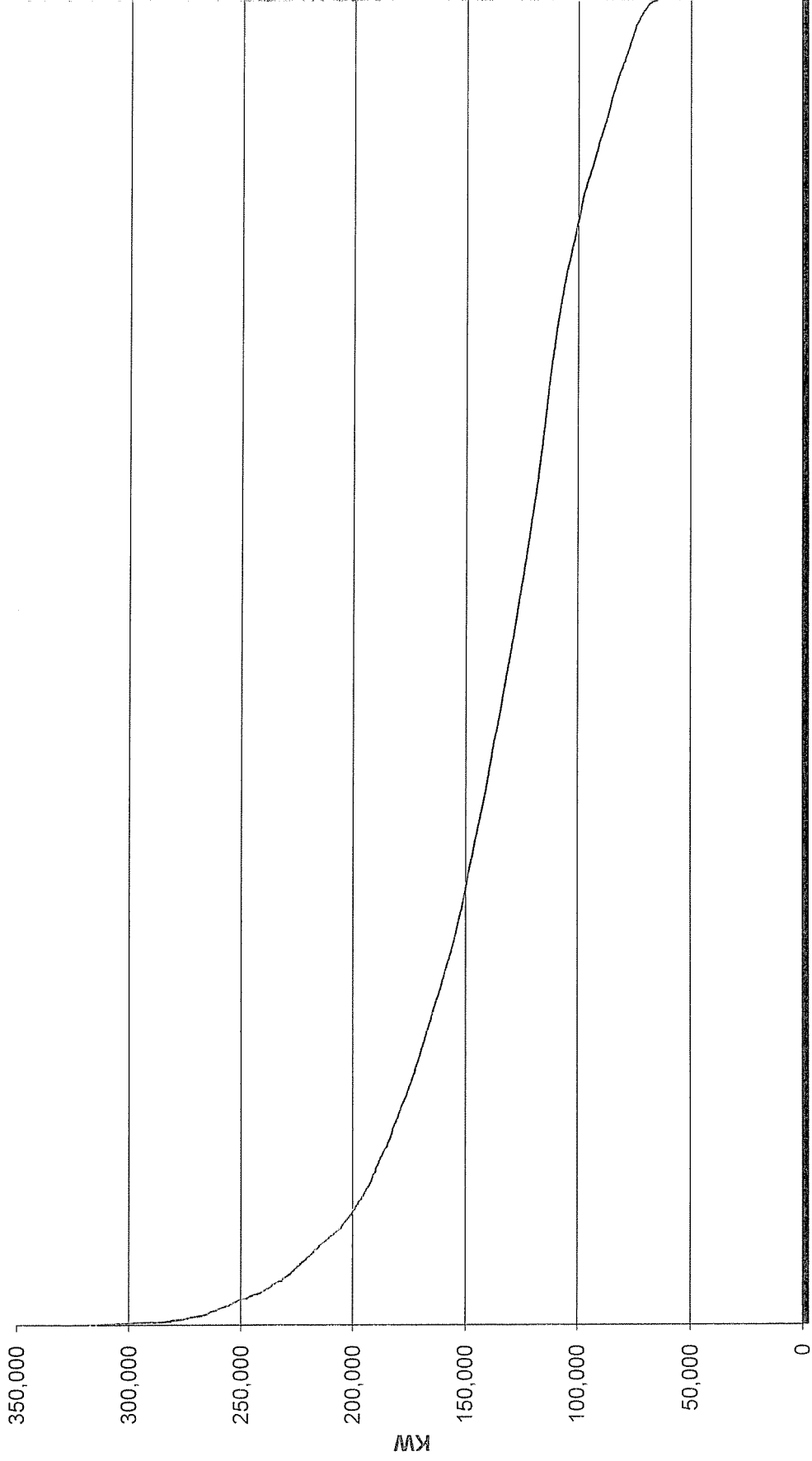
Item 2b  
Page 1 of 2  
Witness: Jim Adkins

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

- Q. b. The most currently available load factor, load duration curves, customer density per mile of distribution line, and other operating and system characteristics of MEPB.
- R B. The SKRECC load factor for the 12 months ending December 2006 is 42.6%. The customer density per mile of line as of June 2007 is 9.49 customers. System line losses for the 12 month period ending June 2007 is 4.5%.

Attached as page of this response is the load duration curve for the SKRECC for the 12 month period ending June 2007.

South Kentucky Load Duration Curve  
For August 1, 2006 through July 31, 2007



SOUTH KENTUCKY RECC  
CASE NO. 2007-00374

RESPONSE TO COMMISSION STAFF'S FIRST DATA REQUEST

	2004 YTD		2005 YTD		2006 YTD		July 2007 YTD		12 Months Ending July 2007	
	Sales	KWH	Sales	KWH	Sales	KWH	SALES	KWH	Sales	KWH
Total Sales & KWH'S Per Class	\$ 48,838,870.00	718,382,333	\$ 55,802,486.14	755,236,884	\$ 59,324,020.72	739,245,826	\$ 40,805,043.39	448,387,721	\$ 64,723,885.13	717,596,439
Residential	4,447,915.93	60,686,187	5,004,603.73	63,001,523	5,549,882.51	62,693,889	3,913,594.05	36,387,471	6,339,641.74	61,487,919
Gen Power - 50kW & Under	16,196,913.00	286,410,508	19,101,152.05	303,901,650	20,606,747.22	304,038,423	13,011,176.93	174,710,354	21,587,923.14	298,047,887
Gen Power - Over 50 KW	44,020.87	723,109	48,922.34	732,042	59,495.56	748,077	47,460.27	432,028	75,946.72	738,196
Public St. & Highway Lighting	721,873.53	10,553,004	785,163.30	10,601,605	861,821.37	10,610,570	616,886.25	6,489,746	962,051.31	10,123,296
Other Sales To Public Auth.										
<b>TOTAL</b>	<b>\$ 70,249,593.33</b>	<b>1,076,755,141</b>	<b>\$ 80,742,327.56</b>	<b>1,133,473,704</b>	<b>\$ 86,401,967.38</b>	<b>1,117,336,785</b>	<b>\$ 58,394,160.89</b>	<b>666,407,320</b>	<b>\$ 93,689,448.04</b>	<b>1,087,993,737</b>



**SOUTH KENTUCKY RECC  
CASE NO. 2007-00274**

Item 3  
Page 1 of 2  
Witness: Jim Adkins

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

Q If the proposed acquisition takes place, provide the anticipated load factor and customer density per mile of distribution line of the combined MEPB and South Kentucky system. Include all workpapers and assumptions used to determine these estimates.

R The load factor for the combined system would have been 42.5% for the period ending June 2007.

Peak demand was 354,369 kW and total energy was 1,319,918,069 kWh.

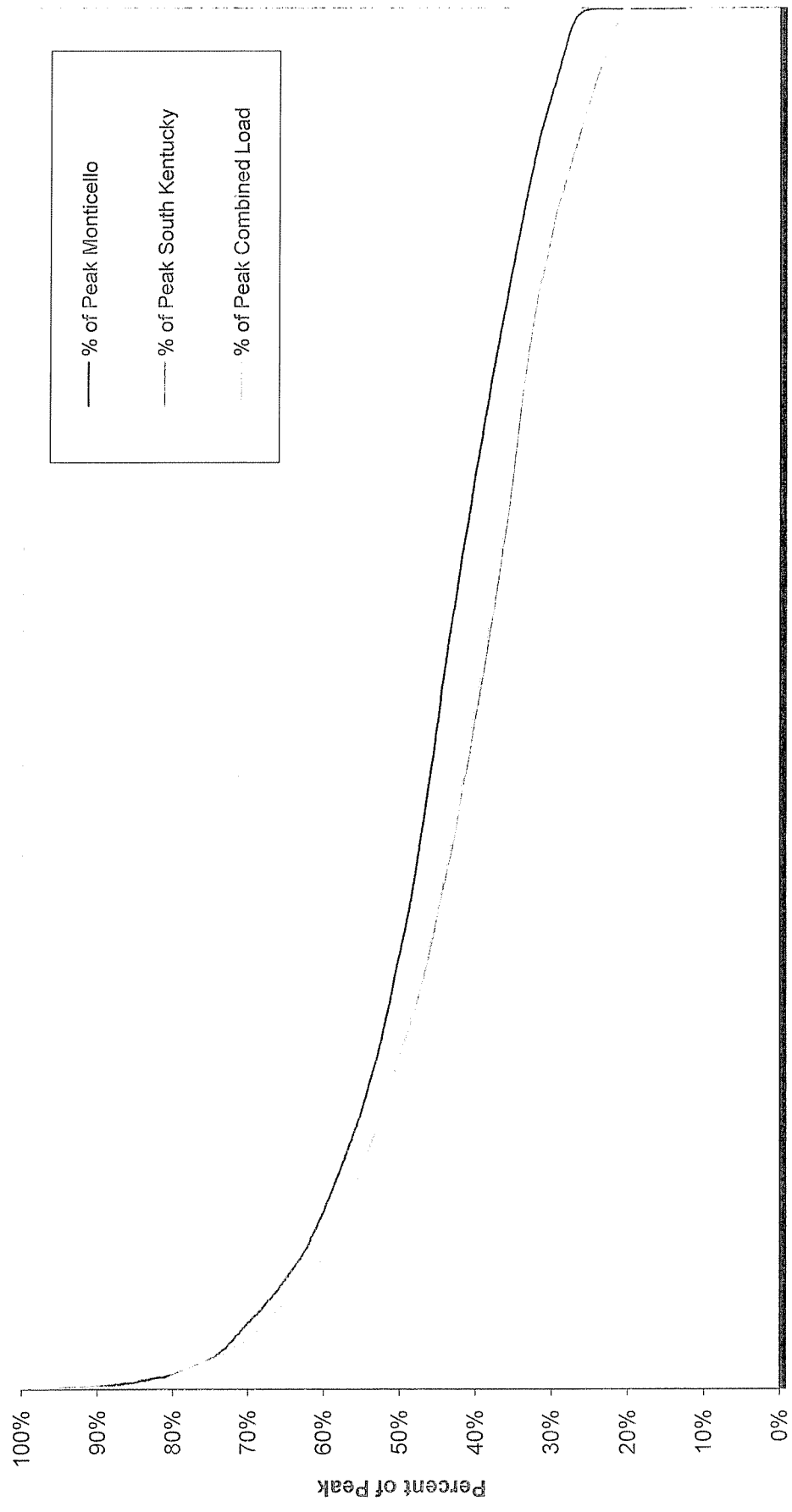
The customer density for the combined system would have been 9.89 consumers per mile of line.

The number of customers would be 65,836 and 6,659 miles of line for the combined system.

Attached as page of this response is the load duration curve for the combined system for the 12 period ending in June 2007.

Tr. No. 3  
Pg. 2 of 2  
Witness: Jim Alkin

### Load Duration Curves For June 18, 2006 through June 17, 2007



1 347 693 1039 1385 1731 2077 2423 2769 3115 3461 3807 4153 4499 4845 5191 5537 5883 6229 6575 6921 7267 7613 7959 8305 8651





**RESPONSE TO COMMISSION STAFF FIRST DATA REQUEST**

- Q. Provide the following information concerning customer rates:
- a. Provide the current rates being charged to MEPB customers.
  - b. Provide a schedule matching the current MEPB rate schedules with the corresponding tariff rates for South Kentucky.

- R. a. Provided below are the rates charged by the MEPB to its customers.

	<u>Customer Charge Month</u>	<u>Demand Charge Per kW</u>	<u>Energy Charge Per kWh</u>
<b><u>(Schedule RS)</u></b>			
Residential - Includes Hydro Credit	\$ 5.20	NA	\$ 0.06840
<b><u>(Schedule GSA)</u></b>			
<b><u>Part 1</u></b>			
Commercial (Up to 50 kW)	\$ 8.33	NA	\$ 0.07635
<b><u>Part 2</u></b>			
Large Commercial (50 kW - 1000 kWh	\$ 8.33		
Demand in excess of 50 kW		\$ 10.73	
First 15,000 kWh of energy			\$ 0.07705
All energy in excess of 15,000 kWh			\$ 0.04043
<b><u>Part 3</u></b>			
Large Power (1,000 kW and over)	\$ 8.33		\$ 0.04115
Demand for first 1,000 kW		\$ 10.33	
Demand in excess of 1,000 kW		\$ 12.09	
<b><u>(Schedule LS)</u></b>			
Outdoor Lighting			\$ 0.05069
Facility Charge	4% of B/(A or B)		

RESPONSE TO COMMISSION STAFF FIRST DATA REQUEST

b. Provided below are the rates of the MEPB with the corresponding tariff schedules of SKRECC.

Residential Service

MEPB	Schedule RS
SKRECC	Schedule A

Small Commercial

MEPB	Schedule GSA Part 1
SKRECC	Schedule B

Large Commercial

	Schedule GSA Part 2
	Schedules LP, OPS, LP-1, or LP-3

Large Power

MEPB	Schedule GSA Part 3
SKRECC	Schedules LP-1, LP-3 or LP-2

Outdoor Lighting

MEPB	Schedule LS
SKRECC	Schedules STL, DSTL, and OL



Item No. 5  
Page 1 of 1  
Witness: A. Anderson

EXERT  
SOUTH KENTUCKY RECC  
JANUARY 11, 2007  
BOARD OF DIRECTORS MEETING  
MINUTES

A Motion was made by Glen Massengale and seconded by Bill Shearer to approve execution of the buy-sell agreement with the Monticello Plant Board for \$4.686 million as presented by management and to approve Allen negotiating any other additional terms and/or conditions that may be needed. Motion carried.

I ATTEST THIS IS AN ACCURATE AND TRUE EXERT FROM THE MINUTES OF  
THE JANUARY 11, 2007 BOARD OF DIRECTORS MEETING OF South Kentucky  
RECC

  
\_\_\_\_\_  
TOM ESTES, SECRETARY



RESPONSE TO COMMISSION STAFF'S FIRST DATA REQUEST

- Q. 6. Concerning the notice of the proposed transaction to the customers of MEPB:
- a. To date, describe how the customers of MEPB have been notified of the proposed transaction.
  - b. Have any public meetings, discussion groups, or forums been held to present and explain the proposed transaction?
    - (1) If yes, provide the dates of each meeting and, if available, the attendance at each meeting and summaries of any comments made at each meeting.
    - (2) If no, explain in detail why such meetings have not been held.
    - (3) Are any public meetings, discussion groups or forums planned to be held prior to the November 6, 2007 election? Explain the response.
- A. The customers of MEPB have been informed of the proposed transaction through a variety of of mediums from press releases, civic clubs meetings, direct mailings, booth displays at communities events, invitations to public forums and readings of the City Ordinance on the the proposed sale.

Included in this response are the following Communication Plan for South Ky RECC along with a sampling of the various communications.



# Communication Plan For MEPB Acquisition

January:

- Employee meetings to inform about purchase
- Press Release regarding MEPB Decision
- Press Release regarding Monticello City Council Decision
- Copy Gary Dishman and Mayor Catron on all MEPB-related Press Releases

February:

- See if we can place *Kentucky Living* stand in MEPB office
- Begin meetings between employees of MEPB and SKRECC to learn about each other, the two systems, etc. – during this time will be taking photos and doing releases to local newspaper

March:

- Press Release (work with Bennie) on all the projects that have been accomplished in Monticello/Wayne County
- Press Release on services available to SKRECC members

April:

- Develop and send MEPB customers an invitation to SKRECC Annual Meeting
- Develop a bill stuffer about annual meeting for MEPB customer bills – in question – may stuff in May bills
- MEPB Board meets April 12 – Mike Anderson to do a presentation (televised, about the positives of proposal)
- Develop counter card or handout of key points, positive points, about proposal to be available to give MEPB customers.
- MEPB will place an employee signed support letter in customer bills
- *Kentucky Living* magazine available at MEPB office



May:

- Annual Report - Reiterate positives about proposed acquisition and what it would mean for MEPB customers – also reiterate our “roots” in Wayne County; include statement from Gary Dishman, Superintendent, and maybe some employees (SKRECC and MEPB) about proposed acquisition.
- Have Dennis Holt begin visiting MEPB LP accounts with an MEPB representative to get familiar with them. These visits may be spread out over several months.
- Letter of support from employees to be sent to Wayne County Outlook by MEPB.
- May 11 & 12 – Joint booth with MEPB at Spring Festival
- *Kentucky Living* magazine available at MEPB office

June:

- *Kentucky Living* article is proposed on a 95-year-old Wayne County woman – Nadene Bertram – who remembers what it was like when the co-op started there and electric came to her house (she still has and uses the original Philco refrigerator)
- Annual Meeting – have someone at special MEPB customer booth to handout buckets/bulbs; answer questions about co-op or acquisition; sign MEPB customers up for special door prize. Invite MEPB employees to the dinner and to the meeting to work side by side with our employees, if they wish. Allen will address MEPB purchase in his comments.
- Have MEPB work with SKRECC booth at County Fair
- *Kentucky Living* magazine available at MEPB office

July:

- Begin special presentations at local Chamber of Commerce, Ag Council, Retired Teachers Association, Woman’s Club, Lion’s Club, etc. about the co-op, what we do, how we have benefited Wayne County, and touch on MEPB acquisition – special invitation and participation by Mayor, Gary Dishman, and MEPB Board Chairman Mike Anderson

- Have Eddie Black and Don Bethel do a joint safety meeting for MEPB/SKRECC employees
- This month or next, place letter of support from SKRECC CEO, Management Team, and Employees in local newspaper.
- *Kentucky Living* magazine available at MEPB office

August:

- Begin advertising public meeting or forum
- Press Release to reiterate the positives as well as inform about forum
- Have a joint employee work project – photos and release of it
- *Kentucky Living* magazine available at MEPB office

September:

- Hold public meeting or forum September 27, providing refreshments, at the Park, about the proposed acquisition of MEPB - special invitation to MEPB Board, Mayor Kenneth Catron and City Council, MEPB Employees, SKRECC Board, and SKRECC Employees
- Create and set banners announcing public forum at local offices
- Create bill stuffer – deal with rate issue; MEPB broken ties with TVA; comparison “With SKRECC, Without SKRECC”
- *Kentucky Living* magazine available at MEPB office
- Create and insert ad in local newspaper(s) about public forum
- Record and begin airing radio commercial about public forum:
  - South Kentucky RECC and the Monticello Electric Plant Board would like to invite the customers of the electric plant to a public forum on September 27 at the Monticello Park. A free picnic dinner for electric plant customers will begin at 5:30 p.m., with an informational session scheduled for 6 p.m. This is your opportunity to find out more and ask questions about the proposed sale of the Electric Plant to South Kentucky RECC. If you have any questions about the forum, contact Joy Bullock at South Kentucky RECC at 800-264-5112.

October:

- Begin one ad per week in Wayne County Outlook about SKRECC – for example “It Pays to be a Member Owner of SKRECC” – target to MEPB Customers – reminding them to vote on November 6
- Bill stuffer sent
- For October 18<sup>th</sup> newspaper, full page ad of letter of support from MEPB employees; for October 25<sup>th</sup> newspaper, full page ad of letter of support from MEPB board; for November 1 newspaper, full page ad of letter of support from Monticello City Council
- Send October issue of *Kentucky Living* magazine to each customer of MEPB
- Mid October – begin radio advertising matching the newspaper advertising – several different radio ads to run through November

November:

- Send November issue of *Kentucky Living* magazine to each customer of MEPB
- Vote “Yes” ad in *Kentucky Living* magazine
- Do a direct-call to MEPB customers with recorded message: November 2, evening; November 3, day; November 5, day
- Conduct an “employee-call” event on November 1 where MEPB/SKRECC employees call 20 of their “friends and family” to ask them to vote “yes” on Tuesday, November 6

**Amy Acton**

**From:** Joy Bullock  
**Sent:** Thursday, January 18, 2007 8:52 AM  
**To:** Albany - All; Monticello - All; Russell Springs - All; Somerset - All; Whitley City - All; Directors & Attorney  
**Subject:** SKRECC Release

The following release went to the Monticello newspaper today.

**For Immediate Release  
January 18, 2007**

**For more information, contact:  
Joy Bullock**

**South Kentucky RECC Seeking Purchase of Plant Board:**

South Kentucky RECC received notice on January 12 that the Monticello Electric Plant Board (MEPB) had voted unanimously for the sale of its assets to the co-op. MEPB is sending a resolution outlining the terms of this agreement to the Mayor of Monticello for action to be taken by the city council. The city council has a special meeting scheduled to consider this resolution on January 23, at 6 p.m.

Should the city council vote in favor of the proposed sale, it will appear on the November ballot for the citizens of Monticello to vote their preference. At that point, if MEPB customers approve the transaction, the acquisition would have to be approved by all governing bodies, including the Kentucky Public Service Commission, before being final.

South Kentucky RECC CEO Allen Anderson says this process actually began about two years ago.

“We had talked and considered this for quite some time before we started pursuing it in earnest. There are just so many obvious synergies to be gained by this acquisition. When Gary Dishman, MEPB Superintendent, and I first started having these talks, we said for this to work it had to be a win-win for everyone involved – their customers, and our member-owners and their employees and our employees.”

Anderson says as the possibility to purchase MEPB was further investigated, he and Dishman began seeing the overwhelming positives that could be gained by combining the two systems.

“For the city of Monticello, they will now have access to a 30-year continuous stream of revenue gained from the sale of the system. This will allow the city to provide any desired improvements in Monticello and could even reduce the possible need for additional tax revenues in the near future. In addition, it will allow the two systems to eliminate some duplication. Tying the two systems together will provide more flexibility, more reliability and more efficiencies. The combination of the two systems will realize an improved density per mile of line, an improved load factor, and allows both to experience better growth opportunity.”

Anderson says South Kentucky RECC’s Mission Statement – “South Kentucky RECC was formed for people, not profit. Its mission is to reliably provide electricity and related services to its members at a competitive price, and to improve the quality of life in their communities” – focuses on service, rather

than profits.

“The proposed acquisition should provide a more positive impact on the Monticello/Wayne County area. South Kentucky RECC has always tried to reach out to our communities and be involved with such things as participation in the Christmas parade, county fair, tribute to the local guard troops, and other participation in local civic and community events. South Kentucky RECC is also very committed to creating jobs and growing the local community in an effort to provide the opportunity for our young people to remain and live in this community. The co-op has directly provided assistance in many local projects, such as P. J. Murphy, downtown revitalization, Otter Creek Girls Club, and many others. And, South Kentucky RECC has alliances both statewide and nationally through Touchstone Energy® and with many large electrical contractors that places the city of Monticello in a more comfortable situation in the event of a major outage or emergency.

“Finally, the buying power of MEPB and SKRECC will be improved, and the acquisition should even help broaden our possibilities and sources for purchased power.”

According to Anderson, MEPB has a power supply contract with the Tennessee Valley Authority (TVA) through November 2008. Depending on how the vote on the issue goes, either MEPB or South Kentucky RECC will honor the remaining TVA contract.

Anderson says South Kentucky RECC is very excited about the possibility of MEPB customers becoming member-owners of the co-op and being eligible to receive the same benefits and reliable service that current members enjoy. He adds that he feels this should be a very seamless transition.

South Kentucky RECC is a locally operated, member-owned electric system that actually began in Monticello more than 68 years ago, and Anderson says it seems very appropriate that the co-op remain committed and interested in the Monticello community, as well as other areas that the co-op serves.

*Joy Bullock, South Kentucky RECC, (606) 678-4121*

**Amy Acton**

**From:** Joy Bullock  
**Sent:** Friday, January 26, 2007 9:29 AM  
**To:** Albany - All; Monticello - All; Russell Springs - All; Somerset - All; Whitley City - All; Directors & Attorney  
**Subject:** FW: SKRECC Release

The following release was sent to local media today.

**For Immediate Release  
January 26, 2007**

**For more information, contact:  
Joy Bullock**

**South Kentucky RECC Moves Another Step Closer to Purchase Plant Board:**

Tuesday night, January 23, at a special called Monticello City Council meeting, the council voted unanimously to sell the Monticello Electric Plant Board (MEPB) to South Kentucky RECC.

The issue will now appear on the November 2007 ballot for the registered voters inside the city limits of Monticello to vote their preference. At that point, a majority of the votes would have to approve the transaction. The acquisition would also have to be approved by all governing bodies, including the Kentucky Public Service Commission, before being final.

South Kentucky RECC CEO Allen Anderson says this process, which actually began about two years ago, has been a thorough process with all aspects of the sale/purchase taken into account.

“I have to commend the Monticello Electric Plant Board of Directors, Gary Dishman, MEPB Superintendent, and the employees for the way they approached our proposal to buy the plant board. They took their time and investigated every possibility from each angle. There were at least two other options for wholesale power that they could have accepted, and they looked at those, while also researching our uniquely different offer. MEPB customers can be confident that their board had their best interests at heart while determining the best plan for the long term for the customers of the MEPB. There are many positive efficiencies gained by the combining of the two systems.”

Anderson says he is extremely pleased by the confidence that MEPB and the Monticello City Council has shown to South Kentucky RECC.

“I was thrilled by the MEPB’s support and equally excited when the Monticello City Council also voted unanimously in favor of the acquisition. South Kentucky RECC’s roots are in Wayne County, and we have never forgotten that. It is our goal now to show the customers of MEPB what South Kentucky RECC can do for them. The proposed acquisition will have a positive impact on the Monticello/Wayne County area and especially for MEPB customers. South Kentucky RECC, being a larger utility, can justify more services for its member-owners, and they are eligible for such things as Patronage Capital. Once MEPB customers become member-owners of SKRECC, they would also have voting privileges at our annual meeting. South Kentucky RECC is also very committed to creating jobs and growing the local community in an effort to provide the opportunity for our young people to remain and live in this community. The co-op has directly provided assistance in many local projects, such as P. J. Murphy,

downtown revitalization, Otter Creek Girls Club, Aspire Center and many others.”

Anderson says that the purchase of MEPB by South Kentucky RECC is truly a win-win situation for all parties and the transition, should voters and the Public Service Commission approve it, will be a smooth one for all involved.

*Joy Bullock, South Kentucky RECC, (606) 678-4121*



Allen Anderson, President & CEO

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Post Office Box 910  
Somerset, KY 42502-0910  
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Toll Free 800-264-5112  
Fax 606-679-8279  
[www.skrecc.com](http://www.skrecc.com)

April 25, 2007

Dear Monticello Electric Plant Board Customer:

I would like to take this opportunity to invite you and your family to South Kentucky RECC's 2007 Annual Membership Meeting on June 7, 2007. This meeting, which is always one of the largest in the nation, will be held at the South Kentucky RECC farm, located from Somerset on west Highway 80, ¼ mile past Fishing Creek Bridge near Nancy, Kentucky, in Pulaski County.

As a cooperative, South Kentucky RECC, which is owned by its members or those who receive electricity from us, is required to hold a meeting once a year with our members to discuss the business of the co-op. We make this meeting a special, exciting event to show our appreciation to our member-owners by providing many information displays, free games and rides for the children, and entertainment for the entire family. There will be gospel singing at 6 p.m. provided by Southern Harmony of Russell County, then at 8 p.m., taking center stage will be country music star Chris Cagle, who has had such hits as "Chicks Dig It," "Miss Me Baby," and "What a Beautiful Day." In addition, we give each registering member a free bucket of light bulbs, a 50-plus year tradition, and each member has the chance to win one of many prizes given away.

This year, we invite the customers of MEPB as our very special guests to see and feel what it is like to be a member of South Kentucky RECC. Each MEPB customer attending will be able to register, beginning at 5 p.m., by presenting a MEPB electric bill and will receive a free bucket of light bulbs. Those registering will have their names included in a special drawing from that group for a prize. We will have an SKRECC information booth showing the many services that the co-op offers and provide information on the many advantages of being a member of South Kentucky RECC.

All registered, legal voters in the city of Monticello will have a chance in the November 6 election to cast their vote in favor of becoming a member of South Kentucky RECC or to not become a member. We will be providing as much information as possible to all MEPB customers between now and then, so you will have the opportunity to make the choice that is in your best long-term interest.

We at South Kentucky RECC are very excited about the possible opportunity to unite together with MEPB and gain the combined strength to provide better service, have stronger buying power, provide many more needed services, strengthen reliability, and gain efficiencies by eliminating duplication.

We look forward to the chance to serve you and feel very confident that you have much to look forward to as well. We hope to see you at the 2007 SKRECC Annual Meeting!

Sincerely,

Allen Anderson, CEO



*Item 6*  
*Page 12 of 21*

**Amy Acton**

**From:** Joy Bullock  
**Sent:** Wednesday, May 16, 2007 8:47 AM  
**To:** Albany - All; Monticello - All; Russell Springs - All; Somerset - All; Whitley City - All; Directors & Attorney  
**Attachments:** image001.emz; oledata.mso

The following was sent to local media today.

**For Immediate Release**  
**May 16, 2007**

**For more information, contact:**  
**Joy Bullock**

South Kentucky RECC and Monticello Plant Board at Springfest:

South Kentucky RECC and the Monticello Electric Plant Board recently had a joint booth at the Heart of Lake Cumberland Spring Fest presented by the Monticello/Wayne County Chamber of Commerce.

The theme of the booth was "South Kentucky RECC/ Monticello Electric Plant Board... Growing Stronger Together" in reference to the proposed acquisition of MEPB by South Kentucky RECC. On January 12 MEPB's board voted unanimously for the sale of its assets to the co-op. Then on January 23, the city council voted in favor of the proposed sale, and it will now appear on the November 6 general election ballot for the citizens of Monticello to vote their preference.

Among the positives for the sale of MEPB to South Kentucky RECC are:

- A 30-year continuous stream of revenue for the city of Monticello - provides for improvements and delays the need for a tax increase
- Rates for MEPB customers will be unaffected by the change up to 2009
- MEPB contract with TVA expires November 2008 - MEPB will be in the market to purchase power if SKRECC is not chosen by citizens of Monticello
- Expanded Community Support and Economic Development benefiting the community
- Elimination of duplications of services in facilities, employees, transportation, and electrical systems
- Strength, flexibility, and reliability through interconnection of the two electrical grids
- Overall load factor will be improved - higher density per mile of line and greater growth opportunity for both MEPB and SKRECC
- Allows for statewide and national alliances between electric cooperatives, which ensures

assistance during major outages

- MEPB customers will become SKRECC member-owners and be eligible for patronage capital and will have a voice and vote on matters pertaining to the co-op
- MEPB employees will become part of the SKRECC team with greater opportunities
- Allows for more flexibility in the source of power supply for the combined system
- MEPB customers as SKRECC members will receive a monthly copy of co-op magazine - *Kentucky Living*
- As a member of SKRECC, MEPB customers will be eligible for free home energy audits and may participate in any of the existing incentive marketing programs.
- Rather than being owned and governed by the city, as SKRECC members, MEPB customers will own the local cooperative

South Kentucky RECC is a locally operated, member-owned electric system that actually began in Monticello more than 69 years ago, and SKRECC CEO Allen Anderson says it seems very appropriate that the co-op remain committed and interested in the Monticello community, as well as other areas that the co-op serves.

Photo Caption:



South Kentucky RECC Chief Member Services Officer Ruby Patterson, MEPB employee Tonya Slagle, SKRECC director for Wayne County Glen Massengale, and MEPB lineman David Hughes talk to MEPB customers about the proposed sale of MEPB to South Kentucky RECC.

*Joy Bullock, South Kentucky RECC, (606) 678-4121*

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**Amy Acton**

**From:** Joy Bullock  
**Sent:** Friday, June 01, 2007 3:56 PM  
**To:** Albany - All; Monticello - All; Russell Springs - All; Somerset - All; Whitley City - All; Directors & Attorney  
**Attachments:** oledata.mso; image001.emz

The following photo and caption were sent to local media today.



**For Immediate Release  
June 1, 2007**

**For more information, contact:  
Joy Bullock**

**South Kentucky RECC Delivers Annual Meeting Items to MEPB:**

Photo Caption: South Kentucky RECC Member Services and Marketing Team Leader Alan Coffey recently delivered Annual Meeting items to the employees of the Monticello Electric Plant Board. In the photo, MEPB employee Sharon Keith accepts her shirt and bucket with light bulbs.

MEPB employees will be at the annual meeting this year to assist and register any MEPB customers that attend the meeting, scheduled for Thursday, June 7. The meeting will be held at the SKRECC farm located on West Highway 80, ¾ mile west of the Fishing Creek Bridge in Pulaski County. MEPB customers can register to win a new digital camera, and all registering MEPB customers, like the South

Kentucky RECC members, will be given a bucket with light bulbs and information about the co-op.

On January 12 MEPB's board voted unanimously for the sale of its assets to the co-op. Then on January 23, the city council voted in favor of the proposed sale, and it will now appear on the November 6 general election ballot for the citizens of Monticello to vote their preference.

South Kentucky RECC is urging all customers of MEPB to attend this annual meeting to find out more about the advantages of being a member of the co-op.

For more information about the meeting, call the local SKRECC office or call 606-676-0881.

*Joy Bullock, South Kentucky RECC, (606) 678-4121*

**Amy Acton**

**From:** Joy Bullock  
**Sent:** Tuesday, August 14, 2007 8:11 AM  
**To:** Albany - All; Monticello - All; Russell Springs - All; Somerset - All; Whitley City - All; mepbdb@net-power.net; mepb@net-power.net  
**Attachments:** image001.emz; oledata.mso

The following photo and caption were sent to local media today....



**For Immediate Release**  
**August 14, 2007**

**For more information, contact:**  
**Joy Bullock**

**South Kentucky RECC Aids Monticello Electric Plant Board:**

Photo Caption: South Kentucky RECC recently assisted the Monticello Electric Plant Board with repairs to one of their digger-derrick trucks. Danny West, SKRECC Garage Team Leader, says the bearing on the turntable was worn out and had to be replaced. MEPB purchased the parts used in the repair, and SKRECC provided the necessary labor. In the photo, SKRECC garage team member Joe Strunk (right) and MEPB employee David Piercy evaluate the extent of the repairs needed to the vehicle.

On January 12 MEPB's board voted unanimously for the sale of its assets to South Kentucky RECC. Then on January 23, the Monticello City Council voted in favor of the proposed sale, and it will

now appear on the November 6 general election ballot for the qualified voters of Monticello to vote their preference.

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Joy Bullock,  
South Kentucky RECC  
(606) 451-4186

# WITH South Kentucky RECC

- A 30-year continuous stream of revenue for the city of Monticello - provides for improvements and delays the need for a tax increase
- Rates for MEPB customers will be unaffected by the change up to January 2009 - power supply guaranteed beyond 2009 with rates the same as all SKRECC customers in its 13-county area
- Expanded Community Support and Economic Development benefiting the community
- Elimination of duplications of services in facilities, employees, transportation, and electrical systems
- Strength, flexibility, and reliability through interconnection of the two electrical grids
- Overall load factor will be improved - higher density per mile of line and greater growth opportunity for the combined systems
- Monticello would gain statewide and national alliances between electric cooperatives, which ensures assistance during major outages
- MEPB customers will become SKRECC member-owners and be eligible for patronage capital refund and will have a significant voice and vote on matters pertaining to the co-op
- MEPB employees will become part of the SKRECC team with greater opportunities
- Allows for more flexibility in the source of power supply for the combined system - stronger buying power
- MEPB customers as SKRECC members will receive a monthly copy of co-op magazine - *Kentucky Living*
- As a member of SKRECC, MEPB customers will be eligible for free home energy audits and may participate in any of the existing incentive marketing programs that assist customers in improving the efficiency of their homes' electric usage.
- Rather than being a small system on an island and 1/1000 of TVA, Monticello would become a member of a 66,000 member co-operative that is 1/10 of EKPC with stronger buying power

# WITHOUT South Kentucky RECC

- The city of Monticello and its residents will face the need for a tax increase sooner
- Rates for MEPB customers will have to increase in the immediate future due to increased power supply costs, the purchase of the transmission line that feeds the substation, and the upgrade of equipment
- MEPB customers would be more subject to higher rates in the future staying with MEPB than if they choose to sell to SKRECC
- MEPB contract with TVA expires November 2008 - MEPB will be in the market to purchase power as a small utility - there will be a huge penalty to go back to TVA
- No growth opportunity for MEPB and its customers to help offset future increasing costs
- MEPB will be on its own during major outages, with no alliances to assist during critical periods
- MEPB and its customers' options could lead to being a part of an organization that is not locally owned and may not have a concern for the Monticello community
- There could possibly be very little interest from power suppliers to serve the Monticello area due to its small size and its location so far away from other power providers
- MEPB employees will not have as many opportunities to advance
- MEPB customers will not have access to many expanded services like those SKRECC are able to provide because it is a larger and stronger system
- MEPB, being so small has very little voice in the decisions made by any future power supplier

**MEPB**

MONTICELLO ELECTRIC  
PLANT BOARD

"Growing Stronger  
Together"

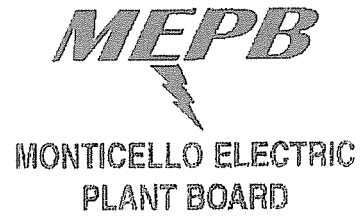
**SK** South Kentucky  
**RECC**  
A Kentucky Energy Cooperative





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*You're Invited...*



## Public Forum on the Proposed Sale of MEPB to South KY RECC

When: September 27, 2007

Location: Monticello/Wayne Co. Park

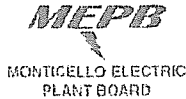
Time: 5:30 p.m. dinner; 6:00 p.m. meeting

Dress Attire: Casual

Come and join representatives from MEPB, SKRECC, and your City Council to learn more and ask questions about the proposed sale of MEPB to South Kentucky RECC.

There will be food and prizes as well as important information!

If you have questions about the meeting, or need more information, contact SKRECC's Monticello office or call 800-264-5112.



*"Growing Stronger Together"*





SOUTH KENTUCKY RECC  
CASE NO. 2007-00374

Item No. 7  
Page 1 of 1  
Witness: Jim Adkins

RESPONSE TO COMMISSION STAFF'S FIRST DATA REQUEST

- Q. Explain in detail why South Kentucky is seeking Commission approval of the transaction prior to the November 6, 2007 vote.
- R. SKRECC is seeking Commission approval prior to the November 6, 2007 vote for several reasons:
- 1 SKRECC was not sure of how long it might take to receive Commission approval on this matter and wished to insure that approval was received well in advance of the November 2008 date.
  - 2 SKRECC filed this case at the time it felt that it had obtained the necessary data consistent with and in compliance with the Commission's letter dated February 26, 2007 on this matter.



RESPONSE TO COMMISSION STAFF'S FIRST DATA REQUEST

Q. 8. Concerning the membership of South Kentucky:

- a. Has the membership of South Kentucky been informed of the proposed transaction?  
Explain the response.
- b. Was the proposed transaction discussed at South Kentucky's 2007 annual meeting?  
Explain the response.
- c. Has the acquisition of the MEPB assets been submitted to a vote of the membership of South Kentucky?

(1) If yes, provide the results of that vote and indicate how and when the vote was taken.

(2) If no, explain why the proposed transaction did not have to be approved by the membership of South Kentucky.

- A. 8a. The membership was informed by press releases, articles in the Kentucky Living magazine and at South Kentucky's annual meeting.
- b. Yes, It was reported in the President and CEO's report to the membership.
- c. Neither South Kentucky's articles of incorporation nor bylaws require member approval for the acquisition of property necessary or incidental to South Kentucky's business. KRS 279.110(1) expressly authorizes the acquisition of property by South Kentucky and there is no statutory requirement for member approval of the transaction contemplated. Copies of the bylaws and articles are provided.

RECEIVED & FILED

Ch 800

JUL 26 9 15 AM '95

RESTATED ARTICLES OF INCORPORATION

OF

SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION

SECRETARY STATE KENTUCKY  
*[Signature]*

Pursuant to KRS 279.050 of the Kentucky Revised Statutes, the undersigned corporation, pursuant to a resolution unanimously adopted by its Board of Directors and approved by its members, hereby adopts the following Restated Articles of Incorporation:

*Item 8*  
*2 of 18*

ARTICLE I

The name of the corporation shall be South Kentucky Rural Electric Cooperative Corporation.

ARTICLE II

The purpose or purposes for which the corporation is formed are for the distribution of electrical power and related services, and for all other purposes permitted under Chapter 279 of the Kentucky Revised Statutes and other applicable law.

ARTICLE III

The principal office of the corporation shall be located at 925-929 North Main Street, Somerset, Pulaski County, Kentucky 42501, and the initial registered agent at that office shall be Keith Sloan.

ARTICLE IV

The operations of the Corporation are to be conducted in the Kentucky counties of Wayne, Clinton, McCreary, Russell, Pulaski, Casey, Lincoln, Adair, Rockcastle, Cumberland and Laurel and the Tennessee counties of Scott

and Pickett, and with the permission of the Public Service Commission of Kentucky, in such other counties and states as such operations may from time to time become necessary or desirable in the interest of this Corporation or of its members.

ARTICLE V

The number of directors of the Corporation shall be seven (7).

ARTICLE VI

The names and post office addresses of the directors who are to manage the affairs of the corporation until their successors are elected and have qualified are:

Jerry Purcell  
3437 Fairway Drive  
Somerset, KY 42501

Carthel Beshear  
439 Carthel Beshear Road  
Somerset, KY 42501

Kenneth Hogue  
2450 Grove Ridge Road  
Kings Mountain, KY 40442

Charles L. Gore  
P.O. Box 87  
Russell Springs, KY 42642

Glen Massengale  
Route 3, Box 299  
Monticello, KY 42633

William J. Shearer  
106 Cumberland Street  
Albany, KY 42602

Richard G. Stephens  
P.O. Box 518  
Whitley City, KY 42653

ARTICLE VII

The duration of the corporation is perpetual.

ARTICLE VIII

Section 1. The Corporation shall have no capital stock, and the property rights and interests of each member shall be equal.



Section 2. Any person, firm, association, corporation, trust, partnership, or body politic may become a member of the Corporation by complying with the conditions provided in the By-laws and application for electrical service.

Section 3. Each member shall promptly pay all obligations which may from time to time become due and payable by such member to the Corporation. Memberships shall not be transferable.

Section 4. The Board of Directors may, by the affirmative vote of not less than two-thirds (2/3rds) of the members thereto, expel any member of the Corporation who shall have violated or refused to comply with any of the provisions of the Articles of Incorporation or the By-laws of the Corporation or any rules or regulation adopted from time to time by the Board of Directors.

Section 5. Any member of the Corporation may withdraw from membership upon payment in full of all of his debts and liabilities to the Corporation and upon compliance with and performance of such terms and conditions as the Board of Directors may prescribe.

Section 6. No member may own more than one membership in the Corporation and each active member shall be entitled to one (1) vote and no more upon each matter submitted to a vote at any meeting of the members of the Corporation.

Section 7. Membership in the Corporation shall begin upon the filing of an application for electrical service, the payment of a membership fee and acceptance of the

Item 8  
5/8/18

application by the Corporation and the commencement by the Corporation to provide electrical service to the member. Membership in the Corporation need not be evidenced by a certificate of membership.

Section 8. Neither the directors nor any member of the Corporation shall be personally responsible for any debt, obligation, or liability of the corporation.

ARTICLE IX

The Board of Directors shall have the power to make, adopt, alter and amend such rules, bylaws and regulations not consistent with these Restated Articles of Incorporation as it may deem advisable for the management, administration and regulation of the business affairs of the corporation.

ARTICLE X

The Corporation may amend, alter, change or repeal any provision contained in these Articles of Incorporation in the manner now or hereafter prescribed by law.

Unanimously adopted by the Board of Directors of South Kentucky Rural Electric Cooperative corporation at its regular meeting on April 13, 1995 and approved by a majority of the members entitled to vote at the annual meeting of the corporation on June 1, 1995.

IN WITNESS WHEREOF, we hereunto subscribe our names this 13<sup>th</sup> day of July, 1995.

SOUTH KENTUCKY RURAL ELECTRIC  
COOPERATIVE CORPORATION

BY: [Signature]  
President

ATTEST:

Kenneth Hogue  
Secretary

STATE OF KENTUCKY

COUNTY OF PULASKI

Subscribed, sworn to and acknowledged before me this  
13<sup>th</sup> day of July, 1995, by Jerry Purcell as  
President of South Kentucky Rural Electric Cooperative  
Corporation and attested by Kenneth Hogue, Secretary of said  
corporation, for and on behalf of the Corporation.

J.B. Johnson, Jr.  
Notary Public, State of KY at Large

My commission expires:

THIS INSTRUMENT DRAFTED BY:

J.B. Johnson, Jr.  
J.B. Johnson, Jr.  
ATTORNEY AT LAW  
P.O. Box 208  
Williamsburg, KY 40769  
(606) 549-5270

# BYLAWS

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## SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION

### ARTICLE I MEMBERSHIP

**SECTION 1.01. Eligibility.** Any natural person, firm, association, corporation, partnership, limited liability company, or body politic or political subdivision or agency hereof (each hereinafter referred to as "person", "applicant", "him", or "her") shall be eligible to become a member of, and, at one or more premises owned or directly occupied or used by him to receive electric service from South Kentucky Rural Electric Cooperative Corporation, (hereinafter called the "Cooperative"); however, no person shall hold more than one voting membership in the Cooperative.

**SECTION 1.02. Application for Membership.** Application for membership - wherein the applicant shall agree to purchase electric power and energy from the Cooperative and be bound by and to comply with all provisions of the Cooperative's Articles of Incorporation, Bylaws, and all rules, rate classifications, rate schedules and regulations adopted by the Board of Directors pursuant thereto (the obligations embraced by such agreement being hereinafter called "membership obligations") - shall be made in writing on such forms as is provided therefore by the Cooperative. With respect to any particular classification of service for which the Board of Directors shall require it, such application shall be accompanied by a supplemental contract, executed by the applicant on such form as is provided therefore by the Cooperative. The membership application shall be accompanied by the membership fee provided for in Section 1.04 together with any service deposit, service connection deposit or fee, facility extension fee or contribution in aid of construction (hereinafter referred to as other deposits and fees) that may be required by the Cooperative which membership fee and other deposits or fees shall be refunded in the event that application is denied by the Board.

**SECTION 1.03. Acceptance Into Membership.** Upon complying with the requirements set forth in Section 1.02, any applicant shall automatically become an active member on the date of his connection for electric service; PROVIDED, that the Board of Directors may by resolution deny an application and refuse to extend service upon its determination that the applicant is not willing or is not able to satisfy and abide by the Cooperative's terms and conditions of membership or that such application should be denied for other good cause; PROVIDED FURTHER,

that any person whose application, for sixty (60) days or longer, has been submitted but not denied by the Board of Directors and who has not been connected by the Cooperative for electric service, may, by filing written request therefore with the Cooperative at least thirty (30) days prior to the next meeting of the Board of Directors, shall have his application submitted to and approved or disapproved by the vote of the Directors at such meeting. Any application not denied by the Board of Directors hereunder shall be deemed to have been accepted.

**SECTION 1.04. Membership Fee and other Deposits or Fees.** The membership fee shall be set by the Board of Directors. Upon payment of membership fee and any other deposits or fees required, the applicant shall be eligible for membership and service. A service connection deposit or fee in such amount as shall be prescribed by the Cooperative and any other deposits or fees required shall be paid by the member for each additional service connection requested by him, however, a member requesting more than one service connection shall not be charged for an additional membership fee.

**SECTION 1.05. Termination of Membership.** Any member may withdraw from membership upon compliance with such uniform terms and conditions as the Board may prescribe. The Board may, but only after due hearing if such is requested by him, by the affirmative vote of not less than two-thirds of all members of the Board expel a member who fails to comply with any of the provisions of the Articles of Incorporation, Bylaws or rules or regulations adopted by the Board. Any expelled member may be reinstated by the majority vote of the Board or by majority vote of the members at any annual or special meeting. The membership of any applicant who is not purchasing electric energy from the Cooperative, or of a member who has ceased to purchase energy from the Cooperative, shall be deemed an inactive member and shall have no voting rights until he is receiving electric service.

Upon the withdrawal, death, cessation of existing or expulsion of a member, the membership of such member shall thereupon terminate. Termination of membership in any manner shall not release a member or his estate from any debts due the Cooperative.

In case of withdrawal or termination of membership in any manner, the Cooperative shall repay to the member the amount of the membership fee paid by him, pro-

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vided, however, that the Cooperative shall deduct from the amount of the membership fee, the amount of any debt or obligation owed by the member to the Cooperative.

**SECTION 1.06. Service to Non-Members.** With Board approval, the Cooperative may render service, upon the same terms and conditions as are applicable to members, to governmental agencies and political subdivisions and to other persons (non-members) who are non-members of the Cooperative to the extent of not more than 49% of the Cooperative's total business and provided further, that should the Cooperative acquire any electric facilities dedicated or devoted to the public use it may, for the purpose of continuing service and avoiding hardship continue to service the persons directly from such facilities at the time of such acquisition without requiring that such persons become members and provided further that such nonmembers shall have the right to become members upon nondiscriminatory terms.

**SECTION 1.07. Purchases of Electric Power and Energy; Power Production by Member, Application of Payment to All Accounts.** The Cooperative shall use reasonable diligence to furnish its members with adequate and dependable electric service, although it cannot and therefore does not guarantee a continuous and uninterrupted supply thereof, and each member, for so long as such premises are owned or directly occupied or used by him, shall purchase from the Cooperative all central station electric power and energy purchased for use on all premises to which electric service has been furnished by the Cooperative pursuant to his membership; unless and except to the extent that the Board of Directors may in writing waive such requirement, and shall pay therefore at the times, and in accordance with the rules, regulations, rate classifications and rate schedules (including any monthly minimum amount that may be charge without regard to the amount of electric power and energy actually used) established by the Board of Directors and, if in effect, in accordance with the provisions of any supplemental contract that may have been entered into as provided for in Section 1.02. Production or use of electric energy on such premises, regardless of the source thereof, by means of facilities which shall be interconnected with Cooperative facilities, shall be subject to appropriate regulations as shall be fixed from time to time by the Cooperative. Each member shall also pay all other amounts owed by him to the Cooperative as and when they become due and payable. When the member has more than one service connection from the Cooperative any payment by him for service from the Cooperative may at the discretion of the Cooperative be applied to any of his outstanding accounts.

**SECTION 1.08. Excess Payment to be Credited as Member-Furnished Capital.** All amounts paid for electric service in excess of the cost thereof shall be furnished by Members as capital, and each member shall be credited with the capital so furnished as provided in Article VII of these Bylaws.

**SECTION 1.09. Member to Grant Easements to Cooperative and to Participate in Required Cooperative Load Management Programs.** Each member grants to the Cooperative an easement or right-of-way over, on and under such lands owned or leased by or mortgaged to the member, and in accordance with such reasonable terms and conditions as the Cooperative shall require for the furnishing of electric service to him or other members or for the construction, operation, maintenance or relocation of the Cooperative's electric facilities and shall, upon being requested to do so by the Cooperative, execute and deliver to the Cooperative grants of such easements or rights of way. The Board of Directors may expel from membership and/or discontinue electric service to any member who fails or refuses to comply with the provisions of this Bylaw.

Each member shall participate in any required program and comply with related rates and service rules and regulations that may be established by the Cooperative to enhance load management, more efficiently to utilize or conserve electric energy or to conduct load research.

**ARTICLE II  
RIGHTS AND LIABILITIES OF MEMBERS**

**SECTION 2.01. Property Interest of Members.** Upon dissolution, of the Cooperative, after all debts and liabilities of the Cooperative shall have been paid, and, all capital furnished through patronage shall have been retired as provided in these Bylaws, the remaining property and assets of the Cooperative shall be distributed among the members eligible under law in the proportion which the aggregate patronage of each bears to the total patronage of all members, during the ten (10) years next preceding the date of the filing of the certificate of dissolution.

**SECTION 2.02. Non-Liability for Debts of the Cooperative.** The private property of the members shall be exempt from either execution of other liability for the debts of the Cooperative and no member shall be liable or responsible for any debts or liabilities of the Cooperative.

ARTICLE III  
MEETING OF MEMBERS

SECTION 3.01. Annual Meeting. The annual meeting of the members shall be held during the month of June or July each year, at such place in one of the counties in Kentucky within which the Cooperative serves, and beginning at such hour, as the Board of Directors shall from year to year fix; PROVIDED, that, for cause sufficient to it, the Board of Directors may fix a different date for such annual meeting not more than forty-five (45) days prior or subsequent to the day otherwise established for such meeting to this Section. It shall be the responsibility of the Board of Directors to make adequate plans and preparations of the annual meeting and any special meeting. Failure to hold the annual meeting at the designated time and place shall not work a forfeiture or dissolution of the Cooperative.

SECTION 3.02. Special Meetings. A special meeting of the members may be called by the Board of Directors or by petition signed by not less than ten (10%) percent of the then-total members of the Cooperative, and it shall thereupon be the duty of the Secretary to cause notice of such meeting to be given as hereinafter provided in Section 3.03. Such a meeting shall be held at such place in one of the counties in Kentucky within which the Cooperative serves, on such date, not sooner than thirty-five (35) days after the call for such meeting is made or a petition therefore is filed, and beginning at such hour as shall be assigned by him or those calling or petitioning for the same.

SECTION 3.03. Notice of Member Meetings. Written or printed notice of the place, date and hour of the meeting and, the purpose or purposes of said meeting shall be delivered to each member not less than five (5) days nor, except as provided in Article VII, more than forty-five (45) days prior to the date of the meeting, either personally or by mail, by or at the discretion of the President or the Secretary (or, in the case of a special meeting, at the direction of those calling the meeting). Any such notice delivered by mail may be included with member service billings or as an integral part of or with the Cooperative's monthly newsletter and/or its monthly insert, if any, in Kentucky Living. If mailed, such notice shall be deemed to be delivered when deposited in the United State mail addressed to the member at his address as it appears on the records of the Cooperative, with postage thereupon prepaid and postmarked at least five (5) days prior to the meeting date. In making such computation, the date of the meeting shall not be counted. The incidental and non-intended failure of any member to receive a notice deposited in the mail addressed to the members at his

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address as shown on the Cooperative's books shall not invalidate any action which may be taken by the members at any such meeting, and the attendance in person of a member at any meeting unless such attendance shall be for the express purpose of objection to the transaction of any business, or one or more items of business, on the ground that the meeting shall not have been lawfully called or convened. Any member attending any meeting for the purpose of making such objection shall notify the Secretary prior to or at the beginning of the meeting of his objection.

SECTION 3.04. Quorum. Business may not be transacted at any meeting of the members unless there are present in person at least one (1%) percent of the then-total members of the Cooperative, except that, if less than a quorum is present at any meeting, a majority of those present in person may without further notice adjourn the meeting to another time and date not less than forty-five (45) days later and to any place in one of the counties in Kentucky within which the Cooperative serves; PROVIDED, that the Secretary shall notify any absent members of the time, date and place of such adjourned meeting by delivering notice thereof as provided in Section 3.03.

SECTION 3.05. Voting. Each member shall be entitled to only one vote upon each matter submitted to a vote any meeting of the members. At all meetings of the members, all questions shall be decided by a majority of the members voting thereon, except as otherwise provided by law or by the Cooperative's Articles of Incorporation of these Bylaws. Members may not cumulate their votes.

SECTION 3.06. Proxies. At any meeting of the members of any adjournment thereof, any member may vote by proxy, but only if such proxy (a) is registered with the Secretary or his duly designated registrar before or at the time of the meeting or any adjournment thereof, (b) is executed by the member in writing and designates the holder thereof, which holder shall be a member who is a natural person, and (c) specifies the particular meeting and/or any adjournment thereof at which it is to be voted and is dated not more than sixty (60) days prior to the date of such meeting or any adjournment thereof; PROVIDED, that any mailed proxies not otherwise dated shall be deemed dated as postmarked if postmark is satisfactorily evidenced; AND PROVIDED FURTHER, that any proxy valid at any meeting shall be valid at any adjournment thereof unless the proxy itself specifies otherwise or is subsequently revoked by another proxy or by the presence in person of the member at such adjournment. A proxy may be unlimited as to the matters on which it

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may be voted or it may be restricted; a proxy containing no restriction shall be deemed to be unlimited. In the event a member executes two or more proxies for the same meeting or for any adjournment thereof, the most recently dated proxy shall revoke all others; if such proxies carry the same date and are held by different persons, none of them will be valid or recognized. The presence in person of a member at the meeting or any adjournment thereof shall revoke any proxy or mailed vote theretofore executed, or mailed by him for such meeting or for such adjournment thereof, as the case may be, and he shall be entitled to vote in the same manner and with the same effect as if he had not executed a proxy. No member may vote as proxy for more than three members at any meeting of the members. Notwithstanding the foregoing provisions of this section, whenever a member is absent from a meeting of the members but whose spouse attends such meeting, such spouse shall be deemed to hold, and may exercise and vote, the proxy of such member to the same extent that such member could vote if present in person, unless such members has given a written proxy to some other person eligible to vote such proxy.

**SECTION 3.07. Credentials and Election Committee.** The Board of Directors shall consider before each annual or special meeting of members whether it is necessary to appoint a Credentials and Election Committee, if the board deems it necessary, because of contested matters on the agenda or other good cause. If the Board has determined the appointment of such Committee is necessary, the Board shall, at least ten (10) days before any meeting of the members, appoint a Credentials and Election Committee. The Committee shall consist of an uneven number of Cooperative members not less than three (3) nor more than five (5) who are not members of the Nominating Committee or existing Cooperative employees, agents, officers, directors or known candidates for directors, and who are not close relations to or members of the same household of any such persons or members of the same household thereof. In appointing the Committee, the Board shall have regard for the equitable representation of the several areas served by the Cooperative. The Committee shall elect its own chairman and secretary prior to the member meeting. It shall be the responsibility of the Committee to establish or approve the manner of conducting member registration and any ballot or other voting, to pass upon all questions that may arise with respect to the registration of members in person, or by proxy or mailed vote, to count all ballots or other votes cast in any election or in any matter, to rule upon the effect of any ballots or other vote irregularly or indecisively marked or cast to rule upon all other questions that may arise relating to member voting and the election of directors (including but not limited to the

validity of petitions of nomination or the qualifications of candidates and the regularity of the nomination and election of directors) and to pass upon any protest or objection filed with respect to any election or conduct affecting the results of any election. In the exercise of its responsibility, the Committee shall have available to it the advice of counsel provided by the Cooperative. In the event a protest or objection is filed concerning any election, such protest or objection must be filed during, or within three (3) business days following adjournment of, the meeting in which the voting is conducted. The Committee shall thereupon be reconvened, upon notice from its chairman, not less than seven (7) days after such protest or objection is filed. The committee shall hear such evidence as is presented by the protestor(s) or objector(s), who may be heard in person, by counsel, or both, and any opposing evidence; and the committee, by a vote of a majority of those present and voting, shall, within a reasonable time but not later than thirty (30) days after such hearing, render its decision, the result of which may be to affirm the election, to change the outcome thereof, or to set it aside. The Committee may not affirmatively act on any matter unless a majority of the Committee is present. The Committee's decision (as reflected by a majority of those actually present and voting) on all matters covered by this Section shall be final.

**SECTION 3.08. Agenda.** No proposal from a member or group of members shall be voted upon at the Annual Meeting unless it has been placed on the agenda at least forty (40) days prior to the date of such meeting. Any legitimate proposal may be placed on the agenda by any member with a petition signed by two hundred (200) additional members supporting the proposal, by filing a copy of the proposal with the Secretary within the time allowed, with a request that it be submitted to the Annual Meeting for consideration.

**SECTION 3.09. Order of Business.** The order of business at the Annual Meeting of the members and, insofar as practicable or desirable, at all other meetings of the members shall be essentially as follows:

- (1) Report on the number of members present in order to determine the existence of a quorum;
- (2) Reading of the notice of the meeting and proof of the due giving thereof, or of the waiver or waivers of notice of the meeting, as the case may be;
- (3) Consideration of approval of minutes of previous meetings of the members and the taking of necessary action thereon;
- (4) Presentation and consideration of reports of officers, directors and committees;
- (5) Election of Directors; (or reports on the election of

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- directors);
- (6) Unfinished business;
- (7) New business as proposed with Section 3.07 Guidelines, and
- ) Adjournment.

**ARTICLE IV**  
**Directors**

**SECTION 4.01. Number and General Powers.** The business and affairs of the Cooperative shall be managed by a Board of seven (7) directors. The Board shall exercise all of the powers of the Cooperative except such as are by law or by the Cooperative's Articles of Incorporation or Bylaws conferred upon or reserved to the members.

**SECTION 4.02. Districts.** To insure the distribution of Board members throughout the area served by the Cooperative, the territory served or to be served by it shall be divided into districts and the number of directors to be elected from each are:

NAME OF DISTRICT	DISTRICT NUMBER	COUNTIES IN DISTRICT	NUMBER OF DIRECTORS
Pulaski-South	1	Pulaski County, south of Cumberland Parkway & Laurel	1
Russell	2	Russell-Adair	1
Pulaski-North	3	Pulaski, north of Cumberland Parkway and Rockcastle	1
Wayne	4	Wayne	1
Clinton	5	Clinton, Cumberland and Pickett Co., TN	1
McCreary	6	McCreary and Scott Co., TN	1
Casey	7	Casey and Lincoln	1

Not less than sixty (60) days before any meeting of the members at which Board members are to be elected, the Board shall review the composition of the seven districts, and if it finds the best interests of the Cooperative and its members will be served thereby, shall reconstitute the districts forth with.

**SECTION 4.03. Qualifications.** Any active member, good standing, 18 years or older, shall be eligible to be director; PROVIDED, however that no person shall be eligible to become or remain a director of the Cooperative who is; (1) a current or retired employee of the Cooperative, (2) a person who has been employed by the

Cooperative during the last five (5) years, (3) a close relative, as hereinafter defined, of an incumbent director or of an employee (including a retired employee) of the Cooperative, (4) a person who, by becoming or remaining a director, obtains direct personal financial gain by being affiliated or associated with any competing enterprise or a business selling electric energy, supplies, or services to the Cooperative or its members, (5) a convicted felon. Notwithstanding any of the foregoing provisions of this Section with regards to relatives, no incumbent director shall lose eligibility to remain a director or to be reelected as a director or if he becomes a close relative of another incumbent director or of a Cooperative employee (including a retired employee) because of marriage to which he was not a party. Upon establishment of the fact that a nominee for director lacks eligibility under this Section or as may be provided elsewhere in these Bylaws, it shall be the duty of the Credentials and Election Committee to disqualify such nominee. Upon the establishment of the fact that any person being considered for, or already holding, a directorship or other position of trust in the Cooperative lacks eligibility under this Section, it shall be the duty of the Board of Directors to withhold such position from such person, or to cause him to be removed therefrom, as the case may be. Nothing contained in this Section shall, or shall be construed to, affect in any manner whatsoever the validity of any action taken at any meeting of the Board of Directors, unless such action is taken with respect to a matter which is affected by the provisions of this Section and in which one or more directors have an interest adverse to that of the Cooperative.

**SECTION 4.04. "Close Relative" Defined.** As used in these Bylaws, "close relative" means a person who, by blood or marriage, including half, foster, step and adoptive kin, is either a spouse, child, grandchild, parent, grandparent, brother, sister, aunt, uncle, nephew or niece of the principal.

**SECTION 4.05. Election-Tenure.** Board members shall be elected by ballot, in the event of a contested election. Otherwise, board members may be elected by ballot, voice, hand, or other suitable means. Board members shall be elected by the members-at-large at the Annual Meeting of members, or at a special meeting thereof held for that purpose within a reasonable time thereafter. They shall serve for terms of four (4) years each, ending with the fourth annual meeting following the election, and until their successors shall have been elected, declared qualified and seated. The seating of a new director shall occur at the next regular scheduled meeting of the Board of Directors.

Board members of Districts 2, 3 and 6 shall be



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elected in 2003 and each fourth year thereafter. Board members for Districts 4 and 7 shall be elected in 2004 and each fourth year thereafter. Board members for Districts 1 and 5 shall be elected in 2005 and each fourth year thereafter.

Board members whose terms are expiring are eligible for reelection.

It shall be the duty of the Board to appoint a committee on nominations consisting of not less than three (3) no more than five (5) members who shall be selected so as to give equitable representations on the committee to the geographical areas served or to be served by the Cooperative. No employee or member of the Board shall be appointed a member of such committee. A majority of the persons so designated shall constitute a quorum of the committee to nominate Directors. The Secretary of the Cooperative or the Cooperative's Attorney shall convene the initial meeting of the Nominating Committee, and the Committee shall then select its own Chairman and thereafter, the time and place of meetings shall be given to each member by letter deposited in the United States mail directed to him or her at the address of the members shown on the books of the Cooperative, not less than five (5) days prior to the meeting, but any member may waive such notice in writing, and does waive such notice if the member attends the meeting. The Nominating Committee shall continue in office for a period of one (1) year or until its successor committee is selected by the Board.

The Committee shall prepare and post at the principal office of the Cooperative at least fifty (50) days before the annual meeting date, a list of nominees for Directors. One (1) person shall be nominated for each vacancy to be filled. No person shall be nominated as a candidate for the Board of Directors unless that person is duly qualified and has requested to be nominated as a candidate by either making that request known by appearing in person before the Nominating Committee or presenting a written request that his or her name be placed in nomination. An incumbent director may be nominated as a director so long as the incumbent is duly qualified and has made that request known to the nominating committee.

A petition nominating another person may be filed with the Secretary not later than the fiftieth (50<sup>th</sup>) day prior to the date of the Annual Meeting provided that the same is signed by at least one (1) percent of the total qualified membership of the Cooperative. Only one person can be nominated per petition. The Secretary shall post such nominations in the principal office of the Cooperative.

In the event of a contested election, or if election by ballot is deemed necessary or desirable by the Board, then a ballot shall be mailed to each member of the Co-

operative at least fifteen (15) days before the date of the Annual Meeting. The ballot shall list persons nominated for the office of Director as herein set out.

Each member may vote for the Director or Directors of his choice by marking in the space provided thereon and shall return his ballot to the office of the Cooperative in a self-addressed envelope provided for this purpose by the Cooperative. All ballots so received shall be kept in sealed and locked containers. All ballots, to be valid, must be received at the principal office of the Cooperative at Somerset, Kentucky, not later than the last working day prior to the Annual Meeting and shall be sealed in an envelope provided by the Cooperative for that purpose.

All ballots shall be delivered in the sealed envelopes to the election tellers, who shall be the Cooperative's Accountants, unless other individuals are designated by the Board. Under the supervision of the Credentials and Election Committee, the election tellers shall count the same.

Each member of the Cooperative shall be entitled to cast one (1) vote for each vacancy to be filled, however, cumulative voting shall not be permitted.

The following ballots shall not be counted:

1. Unmarked ballots.
2. Ballots marked for more candidates than vacancies to be filled.
3. Ballots marked for more than one candidate for any one (1) vacancy.
4. Ballots other than the official ballot mailed.
5. Ballots arriving late.

The following ballots may be counted:

1. Ballots on which the mark is not in the place provided, but does show the intention of the voter.
2. Ballots on which there is an erasure or change of intention shown, but the Credentials and Election Committee is of the opinion that the ballot has not been tampered with.

The Credentials and Election Committee shall certify the number of votes received by each candidate. A final report shall be delivered by the Chairman of the committee to the President of the Cooperative's Board, who will announce the results at the Annual Meeting.

The person nominated for Director in his district, receiving the highest number of votes as certified by the Credentials and Election Committee, is the person elected. If more than one person receives the same number of votes, the Credentials and Election Committee shall at a meeting at a time and place to be fixed by them, at which

due notice shall be given to the nominees, cause the nominees or their representatives, or in the absence of a nominee or his representatives, some person designated by the Credentials and Election Committee to draw for the office and the person drawing the slip marked "elected" shall be the person elected.

**SECTION 4.06. Removal of Directors by Members.**

Any member may bring one or more charges for cause against any one or more directors and may request the removal of such director(s) by reason thereof by filing with the Secretary such charge(s) in writing together with a petition signed by not less than ten (10%) percent of the then-total members of the Cooperative, which petition calls for a special member meeting the stated purpose of which shall be to hear and act upon such charge(s) and, if one or more directors are recalled, to elect their successor(s), and which specified the place, time and date thereof not sooner than twenty-five (25) days after the filing of such petition or requests that the matter be acted upon at the subsequent annual member meeting will be held not sooner than twenty-five (25) days after the filing of such petition. Each page of the petition shall, in the forepart thereof, state the name(s) and address(es) of the member(s) filing such charge(s), a verbatim statement of such charge(s) is (are) being made. The petition shall be signed by each member in the same name as he

filled by the Cooperative and shall state the signatory's address as the same appears on such billings. Notice of such charge(s) verbatim, of the director(s) against whom the charge(s) have been made, of the member(s) filing the charge(s) and the purpose of the meeting shall be contained in the notice of the meeting, or separately noticed to the members not less than ten (10) days prior to the member meeting at which the matter will be acted upon; PROVIDED, that the notice shall set forth (in alphabetical order) only twenty (20) of the names of the members filing one or more charges if twenty (20) or more members file the same charge(s) against the same director(s). Such director(s) shall be informed twenty (20) days prior to the meeting of the members at which the charges(s) are to be considered, and shall have the opportunity at the meeting to be heard in person, by witnesses, by counsel or any combination of such, and to present evidence in respect of the charge(s); and the person(s) bringing the charge(s) shall have the same opportunity, but must be heard first. The question of the removal of such director(s) shall, separately for each if more than one has been charged, be considered and voted upon at such meeting, and any vacancy created without compliance with the foregoing provisions with respect to nominations, except that nominations shall be made from the floor. PROVIDED, that the question of the removal of a director shall not be voted upon at all unless some

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evidence in support of the charge(s) against him shall have been presented during the meeting through oral statements, documents or otherwise. A newly elected director shall be from or with respect to the same Directorate District as was the director whose office he succeeds and shall serve the unexpired portion of the removed director's term.

**SECTION 4.07. Vacancies.** Subject to the provisions of these Bylaws with respect to the filing of vacancies caused by the removal of Directors by the Members, or by the death, disability, or other incapacity of a Director, a vacancy occurring in the Board of Directors shall be filled by the Board of Directors. A Director thus elected shall serve out the unexpired term of the Director whose office was originally vacated and until a successor is elected and qualified; PROVIDED, that such Director shall be from or with respect to the same directorate district as was the Director whose office was vacated. Vacancies shall be filled within a reasonable time, with due consideration given to the facts and circumstances surrounding the occurrence of the vacancy.

**SECTION 4.08. Compensation; Expenses.** Directors shall, as determined by the Board of Directors, receive, on a per diem basis, a fixed fee, which may include insurance benefits, for attending meetings of the Board of Directors, and subject to approval of the Board of Directors, for the performance of other cooperative business. Directors shall also receive advancement or reimbursement of any travel and out-of-pocket expenses actually, necessarily and reasonably incurred in performing their duties. No director shall receive compensation for serving the Cooperative in any other capacity, unless the service of such director is temporary and shall be specifically authorized by the majority vote of the Board that such was an emergency measure; PROVIDED, that a director who is also an officer of the Board, and who as such officer performs regular or periodic duties of a substantial nature for the Cooperative in its fiscal affairs, may be compensated in such amount as shall be fixed and authorized in advance of such service by the Board of Directors.

**SECTION 4.09. Rules, Regulations, Rate Schedules and Contracts.** The Board of Directors shall have power to make, adopt, amend, abolish and promulgate such rules, regulations, rate classifications, rate schedules, contracts, security deposits and any other types of deposits, payments or charges, including contributions in aid of construction, not inconsistent with law or the Cooperative's Articles of Incorporation or Bylaws, as it may deem advisable for the management, administration and regulations of the business and affairs of the Cooperative.

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**SECTION 4.10. Accounting System and Reports.** The Board of Directors shall cause to be established and maintained a complete accounting system of the Cooperative's financial operations and conditions, and shall, after the close of the fiscal year, cause to be made a full, complete and independent audit of the Cooperative's accounts, books and records reflecting financial operations during, and financial conditions as of the end of, such year. A full and accurate summary of such audit reports shall be published in the Kentucky Living magazine or presented to the members at or prior to the succeeding Annual Meeting of the members. The Board may authorize special audits, complete or partial, at any time and for any specified period of time.

**ARTICLE V  
Meetings of Directors**

**SECTION 5.01. Regular Meetings.** A regular meeting of the Board of Directors shall be held monthly at such date, time and place in one of the counties in Kentucky within which the Cooperative serves as the Board shall provide by resolution. Such regular monthly meeting may be held without notice other than such resolution fixing the date, time and place thereof, except when business to be transacted thereat shall require special notice; PROVIDED, that any director absent from any meeting of the board at which such a resolution initially determines or makes any change in the date, time or place of a regular meeting shall be entitled to receive written notice of such determination or change at least five (5) days prior to the next meeting of the Board; AND PROVIDED FURTHER, that, if a policy thereof is established by the Board, the President may change the date, time or place of a regular monthly meeting for good cause and upon not less than five (5) days notice thereof to all directors.

**SECTION 5.02. Special Meetings.** A special meeting of the Board of Directors may be called by the President or by any four (4) Directors, and it shall thereupon be the duty of the Secretary to cause notice of such meeting to be given as hereinafter provided in Section 5.03. The Board, the President, or the Directors calling the meeting shall fix the date, time and place for the meeting, which shall be held in one of the counties of Kentucky within which the Cooperative serves, unless all Directors consent to its being held in some other place in Kentucky or elsewhere. Special meetings, upon prior notice as otherwise provided in Section 5.03, may also be held via a telephone conference call or other telephonic or electronic means including computer e-mail, without regard to the actual location of the Directors at the time of such a telephone conference meeting, or other telephonic or

electronic means including computer e-mail, if all the Directors consent thereto.

**SECTION 5.03. Notice of Directors' Meetings.** Written notice of the date, time, place or telephone conference call, or other telephonic or electronic means including computer e-mail, and purpose or purposes of any special meeting of the Board and, when the business to be transacted thereat shall require such, of any regular meeting of the Board shall be delivered to each Director not less than five (5) days prior thereto, either personally or by mail or by computer e-mail, by or at the direction of the Secretary or, upon a default in this duty by the Secretary, by him or those calling it in the case of a special meeting or by any Director in the case of a meeting whose date, time and place have already been fixed by Board resolution. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, addressed to the Director at his address as it appears on the records of the Cooperative, with first class postage thereon prepaid, and postmarked at least five (5) days prior to the meeting date. The attendance of a Director at any meeting of the Board shall constitute a waiver of notice of such meeting unless such attendance shall be for the express purpose of objecting to the transaction of any business, or of one or more items of business, on the ground that the meeting shall not have been lawfully called or convened.

**SECTION 5.04. Quorum.** The presence in person of a majority of the Directors in office shall be required for the transaction of business and the affirmative votes of a majority of the Directors present and voting shall be required for any action to be taken; PROVIDED, that a Director who by law or these Bylaws is disqualified from voting on a particular matter shall not, with respect to consideration of and action upon that matter, be counted in determining the number of Directors in office or present; AND PROVIDED FURTHER, that, if less than a quorum be present at a meeting, a majority of the Directors present may adjourn the meeting from time to time, but shall cause the absent Directors to be duly and timely notified of the date, time and place of such adjourned meeting.

**SECTION 5.05. Board Action by Written Consent.** Without a Board meeting, the Board may take any action required, or permitted, to be taken at any Board meeting if the action is taken by all Directors as evidenced by their written consent which can be accomplished by computer e-mail.

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**ARTICLE VI**  
**Officers; Miscellaneous**

**SECTION 6.01. Number and Title.** The officers of the Cooperative shall be a President, Vice President, Secretary and Treasurer, and such other officers as may from time to time be determined by the Board of Directors. The offices of Secretary and Treasurer may be held by the same person. The above officers shall be Board members.

**SECTION 6.02. Election and Term of Office.** The four officers named in Section 6.01 shall be elected by secret written ballot, annually and without prior nomination, by and from the Board of Directors at the first meeting of the Board held after the Annual Meeting of the members. If the election of such officers shall not be held at such meeting, it shall be held as soon thereafter as conveniently may be. Each such officer shall hold office until the meeting of the Board first held after the next succeeding Annual Meeting of the members or until his successor shall have been duly elected and shall have qualified, subject to the provisions of the Bylaws with respect to the removal of Directors and to the removal of officers by the Board of Directors. Any other officers may be elected by the Board from among such persons, and with such title, tenure, responsibilities and authorities, as the Board of Directors may from time to time deem advisable.

**SECTION 6.03. Removal.** Any officer, agent or employee elected or appointed by the Board of Directors may be removed by the Board whenever in its judgment the best interests of the Cooperative will thereby be served.

**SECTION 6.04. Vacancies.** A vacancy in any office elected or appointed by the Board of Directors shall be filled by the Board for the unexpired portion of the term.

**SECTION 6.05. President.** The President shall:

- (a) be the principal executive officer of the Board of Directors and shall preside at all meetings of the Board of Directors, and unless determined otherwise by the Board of Directors, at all meeting of the members;
- (b) sign, with the Secretary, deeds, mortgages, notes, bonds, contracts or other instruments authorized by the Board of Directors to be executed, except in cases in which the signing and execution thereof shall be expressly delegated by the Board of Directors or by these Bylaws to some other officer or agent of the Cooperative, or shall be required by law to be otherwise signed or executed, and
- (c) in general, perform all duties incident to the office of President and such other duties as may be prescribed by

the Board of Directors from time to time.

**SECTION 6.06. Vice President.** In the absence of the President, or in the event of his inability or refusal to act, the Vice President shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President; and shall perform such other duties as from time to time may be assigned to him by the Board of Directors.

**SECTION 6.07. Secretary.** The Secretary shall:

- (a) keep, or cause to be kept, the minutes of the meetings of the members and of the Board of Directors in one or more books provided for that purpose;
- (b) see that all notices are duly given in accordance with these Bylaws or as required by law;
- (c) be custodian of the corporate records and of the seal of the Cooperative and see that the seal of the Cooperative is affixed to all documents the execution of which, on behalf of the Cooperative under its seal, is duly authorized in accordance with the provisions of these Bylaws or is required by law;
- (d) have general charge of all the Cooperative's books and records; and,
- (e) in general, perform all duties incident to the office of the Secretary and such other duties as from time to time may be assigned to him by the Board of Directors.

**SECTION 6.08. Treasurer.** The Treasurer shall:

- (a) have charge and custody of and be responsible for all funds and securities of the Cooperative;
- (b) receive and give receipts for monies due and payable to the Cooperative from any source whatsoever, and deposit or invest all such monies in the name of the Cooperative in such bank or banks or in such financial institutions or securities as shall be selected in accordance with the provisions of these Bylaws; and (c) in general perform all the duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him by the Board of Directors.

**SECTION 6.09. Delegation of Secretary's and Treasurer's Responsibilities.** Notwithstanding the duties, responsibilities and authorities of the Secretary and of the Treasurer herein before provided in Sections 6.07 and 6.08, the Board of Directors by resolution may, except as otherwise limited by law, delegate, wholly or in part, the responsibility and authority for, and the regular or routine administration of, one or more of each such officer's such duties to one or more agents, other officers or employees of the Cooperative who are not directors. To the extent that the Board does so delegate with respect to any such officer, that officer as such shall be re-

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leased from such duties, responsibilities and authorities.

**SECTION 6.10. Other Officers.** The Board of Directors may appoint a Chief Executive Officer, also known as the Head Coach, who shall assume the position formerly known as the General Manager, a Chief Operating Officer and a Chief Financial Officer who shall perform all duties, shall have all responsibilities, and may exercise all authority prescribed by the Board. The same individual may simultaneously hold more than one office. These officers are not required to be members of the Cooperative.

**SECTION 6.11. Bonds.** The Board of Directors shall require the Treasurer and any other officer, agent or employee of the Cooperative charged with responsibility for the custody of any of its funds or property to give bond in such sum and with such surety as the Board of Directors shall determine. The Board of Directors in its discretion may also require any other officer, agent or employee of the Cooperative to give bond in such amount and with such surety as it shall determine. The costs of all such bonds shall be borne by the Cooperative.

**SECTION 6.12. Indemnification of Officers, Directors, Staff Employees and Agents.** The Cooperative shall indemnify any person who was or is a party, or is threatened to be made a party to any threatened, pending, or completed action, suit or proceeding whether civil, criminal, administrative or investigative (other than an action by, or in the right of, the Cooperative) by reason of the fact that such person is or was a director, officer, staff employee or agent of the Cooperative, or who is or was serving at the request of the Cooperative as a director, officer, staff employee or agent of another cooperative, association, corporation, partnership, joint venture, trust or other enterprise, against expenses (including all costs of defense), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding, if such person acted in good faith and in a manner such person reasonably believed to be in, or not opposed to, the best interests of the Cooperative, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the conduct of such person was unlawful. The termination of any action, suit or proceeding, had no reasonable cause to believe the conduct of such person was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of *nolo contendere* or its equivalent, shall not of itself, create a presumption that the person did not act in good faith and in a manner which such person reasonably believed to be in, or not opposed to, the best interests of the Cooperative, and with respect to any criminal

action or proceeding, had reasonable cause to believe that the conduct of such person was unlawful.

To the extent that a director, officer, staff employee or agent of the Cooperative has been successful, on the merits or otherwise, in the defense of any action, suit or proceeding referred to in paragraph 1, (and, in addition, actions by or in the right of, the Cooperative) of any claim, issue or matter therein, such person shall be indemnified against expenses (including all costs of defense) actually and reasonably incurred by such person in connection therewith.

The indemnity herein provided shall be co-extensive with those authorized under Kentucky Revised Statute Chapter 271B and shall be effective in accordance with all of the terms and conditions of such statute.

The Cooperative may purchase and maintain insurance on behalf of any person who is or was a director, officer, staff employee or agent of the Cooperative, or who is or was serving at the request of the Cooperative as a director, officer, staff employee or agent of another cooperative, association, corporation, partnership, joint venture, trust or other enterprise, against any liability asserted against such person and incurred by such person in any such capacity, or arising out of the status of such person as such, whether or not the Cooperative would have the power to indemnify such person against such liability under the provisions of this Bylaw.

**SECTION 6.13. Reports.** The Cooperative shall submit at each Annual Meeting of the members reports covering the business of the Cooperative for the previous fiscal year and showing the condition of the Cooperative at the close of such fiscal year.

**ARTICLE VII  
Non-Profit Organization**

**SECTION 7.01. Interest of Dividends on Capital Prohibited.** The Cooperative shall at all times be operated on a cooperative nonprofit basis for the mutual benefit of its patrons. No interest or dividends shall be paid or payable by the Cooperative on any capital furnished by its patrons. (Deposits are not to be construed as Capital furnished for purpose of this Section).

**SECTION 7.02. Patronage Capital in Connection with Furnishing Electric Energy.** In the furnishing of electric energy the Cooperative's operations shall be so conducted that all patrons will, through their patronage, furnish capital for the Cooperative. In order to induce patronage and to assure that the Cooperative will operate on a non-profit basis, the Cooperative is obligated to account on a patronage basis to all its patrons for all amounts received and receivable from the furnishing of electric energy in excess

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of operating costs and expenses properly chargeable against the furnishing of electric energy. All such amounts in excess of operating costs and expenses at the moment of receipt by the cooperative are received with the understanding that they are furnished by the patrons as capital. The Cooperative is obligated to pay by credits to a capital account for each patron all such amounts in excess of operating costs and expenses. The books and records of the Cooperative shall be set up and kept in such a manner that at the end of each fiscal year the amount of capital, if any, so furnished by each patron is clearly reflected and credited in an appropriate record to the capital account of each patron. All such amounts credited to the capital account of any patron shall have the pursuance of a legal obligation to do so and the patron had then furnished the Cooperative corresponding amounts of capital. All other amounts received by the Cooperative from its operations in excess of costs and expenses shall, insofar as permitted by law, be (a) used to offset any losses incurred during the current or any prior fiscal year and (b) to the extent not needed for that purpose, allocated to its patrons on a patronage basis, and any amount so allocated shall be included as a part of the capital credited to the accounts of patrons, as herein provided.

In the event of dissolution or liquidation of the Cooperative, after all outstanding indebtedness of the Cooperative shall have been paid, outstanding capital credits shall be retired without priority on a pro rata basis before any payments are made on account of property rights of members. PROVIDED, that insofar as gains may at that time be realized from the sale of any appreciated asset, such gains shall be distributed to all persons who were patrons during the period the asset was owned by the Cooperative in proportion to the amount of business done by such patrons during that period, insofar as is practicable, as determined by the Board of Directors before any payments are made on account of property rights of members. If, at any time prior to dissolution or liquidation, the Board of Directors shall determine that the financial condition of the Cooperative will not be impaired thereby, the capital then credited to patron's accounts may be retired in full or in part. Any such retirements of capital shall be made as determined from time to time, by the Board of Directors. Capital credited to the account of each patron shall be assignable only on the books of the Cooperative pursuant to written instruction from the assignor and only to successors in interest or successor in occupancy in all or a part of each patron's premises served by the Cooperative, unless the Board of Directors, acting under policies of general application, shall determine otherwise.

Notwithstanding any other provision of these Bylaws, the Board of Directors shall at its discretion have the power at any time upon the death of any patron who was a natural person (or, if as so provided for in the preceding paragraph,

upon the death of an assignee of the capital credits of a patron, which assignee was a natural person), if the legal representative of his estate shall request in writing that the capital so credited or assigned, as the case may be, be retired prior to the time such capital would otherwise be retired under the provisions of the Bylaws, to retire such capital immediately upon such terms and conditions as the Board of Directors, acting under policies of general application to situations of like kind, and such legal representatives, shall agree upon; PROVIDED, however, that the financial condition of the Cooperative will not be impaired thereby.

The Cooperative, before retiring any capital credited to any patron's account, shall deduct therefrom any amount owing by such patron to the cooperative, (and may deduct interest thereon at the Kentucky legal rate on judgments in effect when such amount became overdue, compounded annually).

The patrons of the Cooperative, by dealing with the Cooperative, acknowledge that the terms and provisions of the Articles of Incorporation and Bylaws shall constitute and be a contract between the Cooperative and patron, and both the Cooperative and the patrons are bound by such contract, as fully as though each patron had individually signed a separate instrument containing such terms and provisions. The provisions of this Article of the Bylaws shall be called to the attention of each patron of the Cooperative by posting in a conspicuous place in the Cooperative's office.

**ARTICLE VIII  
DISPOSITION AND PLEDGING OF  
PROPERTY; DISTRIBUTION OF SURPLUS  
ASSETS ON DISSOLUTION**

**SECTION 8.01. Disposition and Pledging of Property.**

- (1) Not inconsistently with Kentucky Revised Statutes, Section 279.140, the Cooperative may authorize the sale, lease, or other disposition of any of the Cooperative's properties and assets only upon the affirmative votes of a majority of the then members of the Cooperative at a duly held meeting. (2) The board may sell any of the following property without authority from the members:
- (a) Property that is not necessary in operating and maintaining the system, but sales of such property shall not in any one year exceed ten percent in value of all the property of the Cooperative other than merchandise and property acquired for resale;
  - (b) Services and electric energy;
  - (c) Property acquired for resale; and
  - (d) Merchandise.

**SECTION 8.02. Distribution of Surplus Assets on Dissolution.** Upon the Cooperative's dissolution, any

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assets remaining after all liability or obligations of the Cooperative have been satisfied and discharged shall, to the extent practicable as determined by the Board of Directors, be distributed without priority but on an equal basis among all persons who were active members on the last day at business of the Cooperative. PROVIDED, HOWEVER, that if in the judgment of the board the amount of such surplus is too small to justify the expense of making such distribution, the Board may, in lieu thereof, donate, or provide for the donation of, such surplus to one or more nonprofit charitable or educational organizations that are exempt from Federal income taxation.

**ARTICLE IX  
SEAL**

The Corporate seal of the Cooperative shall be in the form of a circle and shall have inscribed thereon the name of the Cooperative and the words "Corporate Seal, Kentucky."

**ARTICLE X  
FINANCIAL TRANSACTIONS**

**SECTION 10.01. Contracts.** Except as otherwise provided by law or these Bylaws, the Board of Directors may authorize any Cooperative officer, agent or employee to enter into any contract or execute and deliver any instrument in the name and on behalf of the Cooperative, and such authority may be general or confined to specific instances.

**SECTION 10.02. Checks, Drafts, Etc.** All checks, drafts or other orders for the payment of money, and all notes, bonds or other evidences of indebtedness, issued in the name of the Cooperative, shall be signed or countersigned by such officer, agent or employee of the Cooperative and in such manner as shall from time to time be determined by resolution of the Board of Directors.

**SECTION 10.03. Deposits, Investments.** All funds of the Cooperative shall be deposited or invested from time to time to the credit of the Cooperative in such bank or banks or in such financial securities or institutions as the Board of Directors may select.

**SECTION 10.04. Fiscal year.** The Cooperative's fiscal year shall begin on the first day of the month of January of each year and end on the thirty-first day of December of the same year.

**ARTICLE XI  
WAIVER OF NOTICE**

Any member or director may waive, in writing, any notice of meetings required to be given by these Bylaws.

**ARTICLE XII  
AMENDMENTS**

These Bylaws may be altered, amended or repealed by the majority vote of the Board of Directors at any regular or special Board Meeting; or by unanimous written consent of the Directors without a meeting.

**ARTICLE XIII  
RULES OF ORDER**

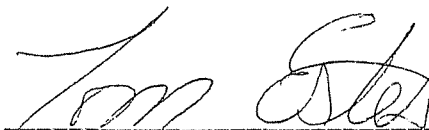
Unless the Board of Directors determines otherwise at any time, and consistent with applicable law, the Articles of Incorporation or these Bylaws, parliamentary procedure at all meetings of the members, of the Board of Directors, of any committee provided for in these Bylaws and of any other committee of the members of the Board of Directors which may from time to time be duly established shall be governed by the most recent edition of Robert's Rules of Order.

**ARTICLE XIV  
GENDER**

**GENDER:** Any inclusion in these Bylaws of the male pronouns, he or his, is fully intended to and shall, where applicable, be deemed to necessarily include and apply equally to the feminine gender pronouns, she or hers.

I, Tom Estes, Secretary of South Kentucky Rural Electric Cooperative Corporation, do hereby certify that the above is a true and correct copy of the By-Laws as adopted by the Board of Directors at a meeting duly and regularly held on \_\_\_\_\_; and as amended through the date signed.

Date \_\_\_\_\_  
(signed)



Tom Estes, Secretary





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

- Q Refer to the Application, page 3. Concerning the purchase of the Monticello Distribution substation by East Kentucky Power Cooperative, Inc. ("EKPC") from South Kentucky, has a formal purchase contract or agreement been negotiated between EKPC and South Kentucky for the purchase of this substation?
- a. If yes, provide copies of the purchase or agreement.
  - b. If no, indicate when South Kentucky expects the contract will be prepared or explain in detail why a purchase agreement would not be required.
- R A formal purchase agreement for the sale of this distribution substation will eventually be developed and most likely will be completed some time in early 2008.



RESPONSE TO COMMISSION STAFF'S FIRST DATA REQUEST

- Q. Refer to the Application, page 4, where it is stated that EKPC will purchase either from South Kentucky or the Tennessee Valley Authority ("TVA") a 69 kV transmission line at the same price it would cost South Kentucky if the line were purchased from TVA.
- a. State whether South Kentucky or EKPC has contacted TVA regarding the possibility of either party purchasing this 69 kV transmission line and whether the TVA is agreeable to selling the line.
- (1.) If TVA is willing to sell the line, provide the selling price.
- (2) If TVA has not been contacted, explain why South Kentucky believes TVA willing to sell the line.
- b. Explain how the proposed transfer of assets from MEPB to South Kentucky would be affected if South Kentucky or EKPC were unable to purchase the TVA transmission line.
- R. TVA is willing to sell this transmission line at a price of \$317,089.00. Attached is a copy of the letter from TVA which states this sales price.



Tennessee Valley Authority, 6045 Russellville Road, Bowling Green, Kentucky 42101-7319

May 16, 2007

Mr. Allen Anderson  
President & CEO  
South Kentucky Rural Electric  
Cooperative Corporation  
925-929 North Main Street  
Post Office Box 910  
Somerset, Kentucky 42502-0910

Dear Mr. Anderson:

In response to your request of March 29 and in addition to my letter of April 17 we are pleased to propose the sale of the 1.9 mile 69 kV transmission line currently connecting the Monticello Electric Plant Board substation to East Kentucky Power's transmission line in conjunction with your assumption of the Monticello power contract.

Tennessee Valley Authority is prepared to convey the Monticello Tap, complete with associated easements, to South Kentucky RECC for \$317,089.00. Facilities will be transferred "as is." Easement rights will be limited to those granted and deemed conveyable in the original documents.

If you have questions regarding this offer to sell, please call me at (270) 846-7041 or Hugh Meyer at (270) 846-7042.

Sincerely,

A handwritten signature in black ink that reads "Myron N. Callahan". The signature is written in a cursive style with a long horizontal flourish at the end.

Myron N. Callahan  
General Manager  
Customer Service  
Kentucky



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

Q. Refer to the Application, page 6.

- a. Provide the expected cost of operation for the distribution facilities to be constructed to interconnect the MEPB and South Kentucky systems.
- b. Explain in detail why South Kentucky is not seeking Commission approval of the financing for the proposed transaction, pursuant to KRS. 278.300.

R a. The expected cost of operations for the distribution facilities to be constructed to interconnect the MEPB and SKRECC systems is listed below.

Operations and maintenance	2,805
Depreciation	1,683
Interest	2,550
Margins	1,785
Total	<u>8,823</u>

- b. South Kentucky has not sought Commission approval for the financing of the proposed transaction as of yet because the final financing arrangements have not been completed as of yet. However, SKRECC has provided much of the information in this application that would be required for the approval of the financing of this agreement by the Commission.



RESPONSE TO COMMISSION STAFF'S FIRST DATA REQUEST

- Q Refer to the Application, Exhibit A, page 1 of 2. The first reason given for South Kentucky purchasing the assets states that, due to the aging of the electric plant and MEPB not desiring to incur substantial debt necessary to efficiently provide service to its customers, the sale of the fixed assets was in the customers' best interest.
- a. Explain why MEPB would incur substantial debt to efficiently provide service if it did not transfer its assets.
  - b. Does South Kentucky anticipate incurring substantial debt to efficiently provide service to the former MEPB customers? Explain the response in detail.
- R. a. The rationale that the MEPB is willing to sell its fixed assets because of its desire not to incur substantial debt to maintain an aging electric plant has been one of discussion between these SKRECC and MEPB.
- b. South Kentucky does not anticipate incurring additional debt beyond what would be expected to be incurred for similar types of loads currently on its system to efficiently provide service to its current members and the former MEPB customers.





RESPONSE TO COMMISSION STAFF'S FIRST DATA REQUEST

- Q Refer to the Application, Exhibit E.
- a. The second paragraph indicates that from the period when South Kentucky acquires ownership of the MEPB fixed assets until November 2008, all reporting, administrative, and accounting functions would be maintained as if MEPB still existed under separate ownership so as to comply with the TVA contract. If the closing occurs prior to December 31, 2007, does South Kentucky plan to reflect the asset transfer in the financial statements included in 2007 annual report filed with the Commission? Explain the response.
- R a South Kentucky does not plan to reflect the asset transfer in its financial statements until January 1, 2008. SKRECC feels that this would be best for three primary reasons: One, it would be a very short period of time from the November 6, 2007 voting date to accomplish such an important task. Two, the financial statements for 2007 would present the result of operations for the activities that SKRECC was primarily engaged in during the year. And three, the transfer would be made in 2008 more fully insuring the potential for a more accurate and mistake free reporting.
- Q. b. The third paragraph states that the MEPB customers will not come under the full control of South Kentucky with full rights of membership until after November 2008.
- (1) Define what is meant by "full rights of membership."
- (2) Since the funding of the memberships in South Kentucky has been incorporated into the transaction and South Kentucky would be providing service once the transaction closes, explain in detail why the MEPB customers will not have full rights of membership until November 2008.
- R. b. SKRECC considers "full rights of membership" to be consistent with the rights of all existing members of South Kentucky including all rights granted by KRS 279.090 and conferred by SKRECC's bylaws. The Commission makes a good point that SKRECC had not fully considered. There is no reason not to afford membership status to all MEPB upon its purchase of the MEPB assets and SKRECC will do so upon finalization of the transaction whereby SKRECC acquires the assets of MEPB.

RESPONSE TO COMMISSION STAFF'S FIRST DATA REQUEST

Q c Concerning the rates South Kentucky will be charging to the MEPB customers between the time the transaction closes and November 2008, explain in detail how South Kentucky proposes to handle these events within its existing tariffs. Include in this response whether South Kentucky believes it will be necessary to file a rate case to change the rates in November 2008.

R c South Kentucky proposes to handle these events in the following manner. The MEPB customers will remain on their current rates as long as wholesale power is provided by TVA which lasts until November 2008.

In November 2008, South Kentucky will place the former MEPB customers into rates classes based upon the load characteristics of these customers and based upon classification criteria of SKRECC's current tariffs.

It is SKRECC's general feeling that a rate case will not be necessary in November 2008 because SKRECC does not anticipate a need for any change in rates in November 2008.



**SOUTH KENTUCKY RECC  
CASE NO. 2007-00374**

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Page 1 of 1  
Witness: Jim Adkins

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

- Q Refer to the Application, Exhibit G, page 3 of 4.
- a. Explain how debt issued in September and December 2007 (Notes IA362 and IA 363) could have a current balance reported as May 31, 2007
  - b. Explain how it is possible to have interest paid in 2006 for debt issued in 2007 (Notes IA 361 and IA 362).
- R. The correct year of issue for Notes IE361, IE362, and IE363 was 2006 and not 2007 as listed on Exhibit G.



RESPONSE TO COMMISSION STAFF'S FIRST DATA REQUEST

STATEMENT OF OPERATIONS  
FOR THE TWELVE MONTHS ENDING JULY 31, 2007

1	Operating Revenue	\$	96,378,439
2	Purchaed Power Cost		<u>69,940,260</u>
3	Gross Margin		26,438,179
4			-
5	Distribution Expense-Operations		3,078,556
6	Distribution Expense-Maintenance		5,190,982
7	Consumer Accounts Expense		3,368,055
8	Customer Serv & Information Exp.		578,227
9	Sales Expense		21,152
10	Administrative & General Expense		3,389,014
11	Depreciation Expense		4,564,560
12	Tax Expense - Other		95,498
13	Interest on Long Term Debt		5,079,898
14	Interest Expense - Other		74,772
15	Other Deductions		<u>78,083</u>
16	Total Distribution Expense		<u>25,518,796</u>
17			
18	Operating Margin		919,383
19			
20	Non Operating Margins-Interest		184,475
21	Income (Loss) from Equity Investments		(71,822)
22	Non Operating Margins-Other		58,543
23	Other Capital Credits		<u>148,457</u>
24			
25	Net Margins	\$	<u><u>1,239,036</u></u>

RESPONSE TO COMMISSION STAFF'S FIRST DATA REQUEST

BALANCE SHEET  
JULY 31, 2007

1	<b>Assets</b>		30	<b>Liabilities &amp; Equity</b>	
2	Total Utility Plant In Service	\$ 162,154,379	31	Memberships	\$ 1,220,495
3	Construction Work in Progress	4,036,791	32	Patronage Capital	48,632,289
4	Total Utility Plant In Service	166,191,170	33	Operating Margins - Prior Years	-
5	Accumulated Depreciation	33,715,977	34	Operating Margins - Current Year	1,886,141
6	Net Utility Plant	132,475,193	35	Non Operating Margins	121,997
7	Nonutility Property-Net	180,744	36	Other Margins & Equities	(2,425,185)
8	Investments in Subsidiary Companies	84,326	37	Total Margins & Equity	49,435,737
9	Invest in Assoc Org. - Patronage Capital	19,312,195	38	Long Term Debt REA (net)	85,880,737
10	Invest in Assoc Org - Other General Funds	1,730,201	39	Long Term Other - Economic Development	2,281,234
11	Invest in Assoc Org - Other Nongeneral Funds	-	40	Long Term Debt FFB REA Guarantee	-
12	Investments in Economic Development Projects	2,457,732	41	Long Term Debt Other REA Guarantee	-
13	Other Investments	-	42	Long Term Debt Other (Net)	10,849,016
14	Special Funds	-	43	Total Long Term Debt	99,010,988
15	Total Other Property and Investments	23,765,199	44	Obligations under Capital Lease	-
16	Cash - General Funds	1,722,411	45	Accumulated Operating Provisions	3,938,724
17	Cash - Construction Funds - Trustee	-	46	Total Other Noncurrent Liabilities	3,938,724
18	Special Deposits	-	47	Notes Payable	2,489,305
19	Temporary Investments	732,739	48	Accounts Payable	6,861,559
20	Notes Receivable (Net)	(3,936)	49	Consumer Deposits	735,138
21	Accounts Receivable - Sales of Energy	7,575,076	50	Current Maturities Long Term Debt	2,604,275
22	Accounts Receivable - Other (Net)	464,812	51	Current Maturities LT Debt ECON Dev	131,725
23	Materials and Supplies	1,889,041	52	Current Maturities - Capital Lease	-
24	Prepayments	678,239	53	Other Current & Accrued Liabilities	2,001,360
25	Other Current and Accrued Assets	898,673	54	Total Current & Accrued Liabilities	14,823,362
26	Total Current and Accrued Assets	13,957,055	55	Regulatory Liabilities	-
27	Regulatory Assets	-	56	Deferred Credits	3,504,225
28	Other Deferred Debits	515,589	57		
29	Total Assets	\$ 170,713,036	58	Total Liabilities and Equity	\$ 170,713,036



RESPONSE TO COMMISSION STAFF'S FIRST DATA REQUEST

	Pro Forma Statement of Operations		
	2008		2009
	Base \$\$	MEPB \$\$	Combined \$\$
	2009 Base \$\$	MEPB \$\$	Combined \$\$
Revenue			
Total Revenue	102,071,864	7,306,291	109,378,155
Expenses			
Cost of Purchased Power	73,877,075	6,082,466	79,959,541
Gross Margin	28,194,789	1,223,825	29,418,614
Distribution O&M	9,433,564	257,730	9,691,294
Consumer Accounts Expense	3,722,628	100,833	3,823,461
Administrative & General	3,885,439	140,580	4,026,019
Depreciation	4,941,866	154,638	5,096,504
Tax Expense	96,981		102,077
Operating Margins before Inte	6,114,312	570,044	6,684,357
Interest Expense	5,364,502	213,085	5,577,587
Operating Margins after intere	749,810	356,959	1,106,769
Non-operating Margins	354,550		354,550
Other Capital Credits	71,790		71,790
G&T Capital Credits	0		0
Net Margins	1,176,150	356,959	1,533,109
Op-TIER	1.14	2.68	1.20
TIER	1.22	2.68	1.27
	8,192,912	453,081	8,645,993
	5,697,315	206,118	5,903,433
	2,495,598	246,962	2,742,560
	393,328	0	393,328
	68,057	0	68,057
	0	0	0
	2,956,982	246,962	3,203,945
	1.44	2.20	1.46
	1.52	2.20	1.54

RESPONSE TO COMMISSION STAFF'S FIRST DATA REQUEST

Assumptions Monticello Electric Plant Board

1. Revenue and expenses for 2008 are based on the actual expenses for July 2007 with the assumed loads for 2008 and 2009 equal to 98,796,228 kWh which is the actual amount for fiscal year 2007.
2. Revenue and expenses for 2009 are based on the financial forecast of SKRECC completed in 2006.
3. Expenses for both years are based on the financial forecast of SKRECC completed in 2006.
4. Listed below are the basis for the estimates presented in the Statement of Operations:

a. Investment amount	4686000
b. Revenue per kWh for 2008	\$ 0.07391
c. Purchased Power costs per kWh sold in 2008	\$ 0.06153
d. Revenue per kWh for 2009	\$ 0.07070
e. Purchased Power costs per kWh sold in 2009	\$ 0.05950
f. Distribution O&M expense is estimated as a percent of investment	5.50%
g. Depreciation expense is estimated as a percent of investment	0.033
h. A&G expense is estimated as a percent of investment	0.03
i. Consumer Accounts expense is estimated as an amount per customer of	\$ 28.98

RESPONSE TO COMMISSION STAFF'S FIRST DATA REQUEST

	<u>Pro Forma Balance Sheet</u>		
	<u>2008</u>		<u>2009</u>
<u>Assets</u>	<u>Base</u> \$\$	<u>MEPB</u> \$\$	<u>Combined</u> \$\$
Total Utility Plant in Service	178,359,149	4,686,000	183,045,149
Accumulated Depreciation	39,801,391	154,638	39,956,029
Net Plant	138,557,758	4,531,362	143,089,120
Current Assets	15,733,111	164,930	15,898,041
Other Property & Investments	22,200,222		22,200,222
Other Assets and Deferred Debits	768,705		768,705
Total Assets	177,259,796	4,696,292	181,956,088
<u>Liabilities and Equity</u>			
Distribution Equity	34,353,191	442,959	34,796,150
G&T Capital Credits	18,006,351		18,006,351
Total Equity and Margins	52,359,542	442,959	52,802,501
Long Term Debt - RUS	96,581,157		102,407,542
Long Term Debt - Other	10,618,309	4,253,333	14,871,642
Total Long Term Debt	107,199,467	4,253,333	111,452,800
Current Liabilities & Other	17,700,787		17,700,787
Total Liabilities and Equity	177,259,796	4,696,292	181,956,088
	<u>Base</u> \$\$	<u>MEPB</u>	<u>Combined</u>
	187,732,101	4,686,000	192,418,101
	42,951,163	309,276	43,260,439
	144,780,939	4,376,724	149,157,663
	16,857,487	419,863	17,277,350
	22,268,279	-	22,268,279
	768,705		768,705
	184,675,410	4,796,587	189,471,997
	36,524,780	689,921	37,214,702
	18,006,351		18,006,351
	54,531,131	689,921	55,221,053
	102,407,542		102,407,542
	10,035,949	4,106,666	14,142,615
	112,443,491	4,106,666	116,550,157
	17,700,787		17,700,787
	184,675,410	4,796,587	189,471,997

RESPONSE TO COMMISSION STAFF'S FIRST DATA REQUEST

Assumptions for Monticello Electric Plant Board

1. Total Utility Plant Investment is equal to the purchase price of the MEPB purchase.
2. Accumulated depreciation comes from the Statement of Operations

	<u>2008</u>	<u>2009</u>
3. Current Assets for		
Beginning Current Assets	\$ -	\$ 164,930
Payment of memberships	86,000	-
Margins	356,959	246,962
Depreciation expense	154,638	154,638
Less the Initial Payment	(286,000)	-
Less Principle Payment	(146,667)	(146,667)
Ending balance	\$ 164,930	\$ 419,863

4. Distribution Equity		
Beginning balance	\$ -	\$ 442,959
Memberships	86,000	
Margins	356,959	246,962
Ending balance	\$ 442,959	\$ 689,921

5. Long Term Debt		
Initial amount	4,686,000	4,253,333
Less initial payment	286,000	0
Less principle payment	146,667	146,667
	4,253,333	4,106,666



RESPONSE TO COMMISSION STAFF'S FIRST DATA REQUEST

Q. Refer to the Application, Exhibits K, L, and M. Exhibit K shows the total amount to be financed is \$4,400,000. In Exhibit L, it is stated that the proceeds from the sale of the distribution substation to EKPC, less the cost of interconnection facilities anticipated to be \$1,149,000, and will be used to offset the initial purchase price paid to MEPB. Exhibit H states that the net cost of the purchase of the MEPB fixed assets to be \$4,686,000 less the \$1,200,000 gross proceeds from the distribution substation sale, or \$3,486,000.

- a. Explain why the net amount from the sale of the distribution substation was not reflected in the determination of the amount to be financed shown on Exhibit K.
- b. Explain why the net cost for the assets shown on Exhibit M includes \$86,000 in memberships that are to be reimbursed by the city of Monticello, as stated in Exhibit K.
- c. Based on the information provided in Exhibits K, L, and M, recalculate the amount to be financed and the estimated net cost of the purchase.

R a. The amount to be financed by the MEPB is \$4,400,000. The sale of the distribution substation is a completely separate transaction with EKPC. How the substation transaction will be financed as not been determined yet.

b. The inclusion of the \$86,000 for membership was a negotiated piece of this transaction. SKRECC did not feel that the MEPB customers should be responsible for the membership fee since they were not charged a membership fee by the city. So accordingly, SKRECC agreed to pay this additional amount so that the city could pay the membership fee.

c. Relevant cost data are provided below:

Cost of fixed assets purchased from MEPB	\$ 4,686,000
Cost of interconnection of the two systems	51,000
Total cost	<u>4,737,000</u>
Less: Sale of distribution substation to EKPC	<u>1,200,000</u>
Net Cost to South Kentucky	<u><u>\$ 3,537,000</u></u>

SOUTH KENTUCKY RECC  
CASE NO. 2007-00374

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Witness: Jim Adkins

RESPONSE TO COMMISSION STAFF'S FIRST DATA REQUEST

Relevant financing data

Initial purchase price to City of Monticello	\$ 4,686,000
Less: Initial payment to the city	<u>286,000</u>
Amount Financed with city	<u><u>\$ 4,400,000</u></u>

If EKPC pays cash for distribution substation, listed below would be the cash balance

Sale of Substation	\$ 1,200,000
Less; Interconnection costs	51,000
Less: Payment to City	<u>286,000</u>
Cash balance	<u><u>\$ 863,000</u></u>





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

Q. Refer to the Application, Exhibit M, page 1 of 2. Provide the current status of each contract listed.

R Provided below is the current status of the contracts listed in Exhibit M.

- 1 Purchase agreement with the MEPB has been completed.
- 2 Contract amendment for the purchase of power from the TVA is being developed.
- 3 Contract for the purchase of the Transmission line from the TVA is being developed and with an agreed price. Line may be purchased by EKPC instead of SKRECC.
- 4 Contract for the sale of the TVA transmission line to EKPC could be direct sale from TVA to EKPC instead of from TVA to SKRECC to EKPC.
- 5 Contract for the sale of the distribution substation to EKPC is in process.

The above contracts will move forward in an expeditious manner once the voters approve this sale of the MEPB fixed assets.



RESPONSE TO COMMISSION STAFF'S FIRST DATA REQUEST

- Q Refer to the Application, Exhibit R, the Purchase and Sales Agreement ("Purchase Agreement").
- a. Page 2 of paragraph 2, of the Purchase Agreement states that the city of Monticello will pay South Kentucky the \$25 membership fee per number of customers served at the date of sale. Exhibit K of the Application shows the total amount to be \$86,000. Provide the calculation of the \$86,000 and indicate whether this total is subject to change.
- R. a. This \$86,000 amount was arrived at by multiplying the membership fee of \$25 by the number of customers on the city of Monticello anticipated at the time of sale. This total amount is subject to change.

RESPONSE TO COMMISSION STAFF'S FIRST DATA REQUEST

- Q. b. Page 3, paragraph 5, of the Purchase Agreement describes the mortgage for the purchase of the MEPB fixed assets. Does this financing arrangement require the approval or consent of either the Rural Utilities Service ("RUS") or South Kentucky's supplemental lender? Explain the response.
- R. b. The financing arrangement contained in the Purchase Agreement would require the approval of RUS and SKRECC's supplemental lender. The RUS requires a lien accommodation from them and it is being developed. The approval from the supplemental lender is in process at the current time.
- Q. c. Page 6, paragraph 12, of the Purchase Agreement states South Kentucky intends to offer all employees of MEPB a position with the cooperative with wages at or above the same wages and benefits for similar jobs. Explain why any employees hired by South Kentucky from MEPB would be receiving higher wages or benefits for similar jobs.
- R. c. If SKRECC purchases the MEPB, the current employees of the MEPB will become employees of SKRECC. These new employees of SKRECC will then come under the wage and salary plan of SKRECC. This wage and salary plan provides for wages and benefits higher than what the current MEPB employees are paid by the MEPB.
- Q. d. Page 7, paragraph 14, of the Purchase Agreement describes the situation if the transaction cannot be consummated and closed. It provides that South Kentucky would provide wholesale electricity to MEPB and its customer base for a period of no less than 2 years from November 2008 and at a wholesale rate equal to the wholesale rate charged to South Kentucky.
- (1) Explain in detail how South Kentucky, a distribution cooperative, can make wholesale electricity sales. Include citations to applicable statutes and South Kentucky's Articles of Incorporation and Bylaws.
- (2) Explain in detail why a wholesale electricity transaction was not arranged with EKPC.
- R. d. The MEPB terminated its supply agreement with TVA in November 2003 to not be effective for 5 years to expire November, 2008. The agreement between South Kentucky and MEPB, although entered into in January, 2007 cannot be finalized

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

until November, 2007 upon approval by the registered voters of Monticello, a delay of ten (10) months. During this 10 month period, MEPB could seek out and obtain another supplier but for the agreement with South Kentucky. It is apparent that in the unlikely event the voters do not approve the sale of the assets of MEPB, there may not be sufficient time for MEPB to secure an adequate supply of electricity. Rather than literally leaving the MEPB customers "out in the cold", South Kentucky contracted to alleviate the risk of waiting the 10 months for voter approval by agreeing to guarantee a power supply to MEPB at South Kentucky's wholesale price, that is, the price South Kentucky is charged by its wholesale supplier, East Kentucky Power Cooperative.

South Kentucky knows of not statutory or other authority prohibiting its sale of electricity at the rates it is charged. South Kentucky will not be maintaining the MEPB plant or making service/repair calls. It will merely be responsible for assuring that electricity is furnished to MEPB in the event the sale is not approved by the voters. Furnishing electricity at wholesale prices will therefore not impair South Kentucky's commitment to its members or adversely affect South Kentucky financially.

East Kentucky Power Cooperative will be supplying the electricity, regardless of the wording of the agreement and the use of the term "wholesale electricity" in connection with South Kentucky. The agreement between South Kentucky and MEPB could not so provide because East Kentucky was not a party to the agreement. It makes no appreciable difference that the agreement with the MEPB is with South Kentucky and not East Kentucky. The effect is in all respects the same. Since the date of the agreement, East Kentucky has specifically obligated itself to supply the MEPB if the vote is unfavorable. The East Kentucky board of directors has considered and has specifically endorse and approved East Kentucky's involvement. It should be noted that pursuant to Power Supply Contract between them, East Kentucky is obligated to fulfill all power requirements of South Kentucky anyway. Obviously, lacking any generation capacity, South Kentucky cannot furnish electricity it produces if that is what the Commission is implying by asking how it can make a wholesale electricity sales. It is, and always has been a distribution cooperative. But South Kentucky knows of no statutory or other basis which renders it incapable of determining to sell electricity at its cost where it has not responsibility to maintain the plant or provide service to customers

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

especially in light of the overriding need of the customers of MEPB to receive electricity at reasonable rates if the sale does not gain voter approval.

Lastly, there is no provision in South Kentucky's articles of incorporation or bylaws which prohibits it from assuring that the MEPB customers receive electricity even if the sale to South Kentucky is not approved by the voters.

Q e Page 8, paragraph 17 of the Purchase Agreement provides that the MEPB board members will serve as an advisory board to South Kentucky and the current superintendent of MEPB will be retained by South Kentucky in an advisory capacity for a minimum of 2 years with compensation equal to current levels.

- (1) Provide the total annual compensation currently paid to the MEPB board.
- (2) Provide the total annual compensation currently paid to the superintendent.
- (3) Describe in detail the nature and duties of the advisory functions to be provided by the MEPB board and its superintendent.
- (4) Explain in detail why it is necessary for either the MEPB board or its superintendent to be retained in an advisory capacity.
- (5) Explain why this arrangement is for a minimum of 2 years rather than limited to no more than two years.

R e The total annual compensation currently paid to the MEPB is \$2,400. The total annual compensation currently paid to the superintendent is \$65,000. The advisory functions and duties to be provided by the MEPB and its superintendent are these:

- 1 To serve in a liaison capacity to insure an orderly transfer MEPB fixed assets,
- 2 To insure adequate and efficient service to the current MEPB customers.
- 3 To trouble shoot problems that may arise during the transition.
- 4 To point out any potential problem areas dealing with the delivery of electric power
- 5 To provide any other assistance that may be needed.
- 6 To provide continuity of past MEPB relationships

SKRECC feels that it is best to keep the board and superintendent in an advisory capacity to provide an orderly transfer and continuation of efficient operation

RESPONSE TO COMMISSION STAFF'S FIRST DATA REQUEST

SKRECC felt that the two year period would be a reasonable minimum amount of time as it would provide one year of time before the TVA contract expired and a one year of time with the new wholesale power supplier. Additionally, it would provide a period of time for the MEPB customers to become comfortable with SKRECC as well as for SKRECC to provide efficient service.

Q f Pages 8 and 9, paragraph 18, of the Purchase Agreement state that the MEPB customer deposit liability would transfer to South Kentucky. Provide the amount of this liability as of July 31, 2007 showing any accrued interest on the deposits separately.

R f Customer deposits:	152,897
Accrued interest on customer deposits	9,174





**SOUTH KENTUCKY RECC  
CASE NO. 2007-00374**

Item No. 19  
Page 1 of 2  
Witness: Jim Adkins

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

Q Refer to the Purchase Agreement, Exhibit A. Provide a detailed plant schedule as of July 31, 2007, listing the plant by type of plant and including the following information for the MEPB assets to be purchased:

- a. The original cost of the plant
- b. The accumulated depreciation for the plant
- c. The date the plant was placed in service
- d. The depreciation method utilized
- e. The useful life and remaining life of the plant

R SKRECC does not have plant data as of July 31, 2007. The plant data utilized is based on the MEPB fiscal year ending June 30, 2007.

a-b

<u>Acct No.</u>	<u>Description</u>	<u>Amount</u>	<u>Accumulated Depreciation</u>
360	Land and land righes	15,024	
361	Structurres and improvements	17,824	17,236
362	Station equipment	1,154,181	508,904
364	Poles, towers, and fixtures	1,118,664	389,094
365	Overhead conductor and devices	491,598	176,068
366	Underground conduit	3,950	2,133
367	Underground conductor and devices	17,860	9,421
368	Line Transformers	1,385,180	531,602
369	Services	356,972	247,247
370	Meters	242,810	147,449
371	Installations on customers premises	304,403	196,533
373	Street lighting and signal systems	193,569	99,941
		<u>5,302,035</u>	<u>2,325,628</u>

SOUTH KENTUCKY RECC  
CASE NO. 2007-00374

Item No. 19  
Page 2 of 2  
Witness: Jim Adkins

RESPONSE TO COMMISSION STAFF'S FIRST DATA REQUEST

<u>Acct No.</u>	<u>Description</u>	<u>Amount</u>	<u>Accumulated Depreciation</u>
389	Land and land rights	112,948	
390	Structures and improvements	682,723	170,066
391	Office furniture and equipment	129,313	42,559
392	Transportation equipment	425,948	401,156
393	Stores equipment	328	356
394	Tools, Shop, and garage equipment	12,567	11,972
395	Laboratory equipment	9,161	2,338
396	Power operated equipment	14,580	13,979
397	Communication equipment	28,529	26,504
398	Miscellaeous equipment	3,047	1,747
		<u>1,419,143</u>	<u>670,677</u>

- c. The original date that plant was placed in service as the MEPB was November 4, 1947. Exhibit 3 in Exhibit O of the original filing provides an estimate of the dates that individual plant items were placed in service.
  
- d. Property, plant and equipment are depreciated using the straight line method on a composite basis using percentages prescribed by TVA ranging from 2.5 to 20% annually.
  
- e Exhibit 3 contained in Exhibit O of the original finling provides an excellent estimate of the useful life and the remaining life for individual plant items.



**SOUTH KENTUCKY RECC  
CASE NO. 2007-00374**

Item No. 20  
Page 1 of 2  
Witness: Allen Anderson

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

- Q Refer to the Application, Exhibit S. Provide signed copies of the ordinance adopted by the city of Monticello.
- R. Attached as page 2 of this response is a signed copy to the requested ordinance.

ORDINANCE NO. 730

AN ORDINANCE BY THE CITY COUNCIL OF THE CITY OF MONTICELLO, KENTUCKY RELATED TO THE DISPOSITION OR SALE OF THE MONTICELLO ELECTRIC PLANT BOARD ELECTRIC FACILITIES, STATING THE FINDING OF FACTS RELATED THERETO, STATING THE DESIRABILITY OF THE SALE, DIRECTING THE QUESTION OF THE SALE TO BE PREPARED AND PLACED BEFORE QUALIFIED VOTERS OF MONTICELLO, PROVIDING FOR THE CERTIFICATION OF SAID ORDINANCE TO THE COUNTY CLERK, AND PROVIDING FOR ADVERTISEMENT OF SUCH ELECTION.

NOW, THEREFORE, BE IT ORDAINED by the City Council of the City of Monticello, Kentucky as follows:

Section 1. That the City Council hereby finds the following facts, that the Monticello Electric Plant Board has adopted a Resolution, attached hereto, that states the Board has approved the proposed sale or disposition of it's electric facilities, including a full description of the property to be sold, the purchaser thereof, the consideration to be received, along with terms and conditions, and the date on which an election shall be held, all pursuant to KRS 96.860.

Section 2. That the Monticello Electric Plant Board submitted said Resolution to the City Council of the City of Monticello, Kentucky, who subsequently approved the Resolution on January 23, 2007 at a duly convened meeting of the Council.

Section 3. That due to the fact that the electric facility is geographically surrounded without the possibility of growth, that a larger system would benefit the customers of the electric facility through better bargaining and purchasing power that could lead to better rates, and that a larger system would provide faster and more reliable service in the unfortunate event of a disaster, the Monticello City Council hereby declares the sale to be desirable.

Section 4. That the question as to the sale or disposition of the Monticello Electric Plant Board electric facility shall be submitted to the qualified voters of the City of Monticello at the next regular election, said election to be held November 6, 2007.

Section 5. That the question posed to the qualified voters shall be: "Are you in favor of the sale or disposition of the Monticello electric plant, for the consideration of \$4,686,000.00 (four million six hundred eight-six thousand dollars)?" Said voters shall indicate a "Yes" or "No" vote.

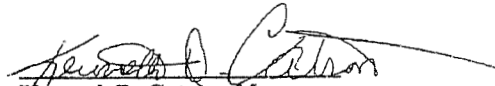
Section 6. That this ordinance shall be certified to the county clerk by the second Tuesday of August 2007.

Section 7. That the Mayor shall advertise said election and the object thereof pursuant to KRS Chapter 424, also by printed handbills posted in not less that four (4) conspicuous places in each voting precinct in the City of Monticello and at the courthouse door. All qualified and legal voters of the City of Monticello shall be privileged to vote at said election.

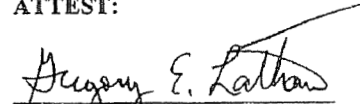
Section 8. That this ordinance shall take effect immediately upon its adoption and publications as required by Kentucky Statute.

**PUBLICLY READ, APPROVED, AND ADOPTED** at a duly convened meeting of the City Council of the City of Monticello, Kentucky held this 9<sup>th</sup> day of April 2007.

APPROVED:

  
Kenneth D. Catron, Mayor

ATTEST:

  
Gregory E. Latham  
City Clerk/Treasurer

FIRST READING: March 12, 2007  
SECOND READING: April 9, 2007  
PUBLICATION: April 18, 2007



**SOUTH KENTUCKY RECC  
CASE NO. 2007-00374**

Item No. 21  
Page 1 of 1  
Witness: Allen Anderson

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

Q. Refer to the Application, Exhibit T. Provide copies of any other correspondence to or from the RUS related to the proposed transaction.

R. No additional correspondence had been sent or received from RUS.





**SOUTH KENTUCKY RECC  
CASE NO. 2007-00274**

Item No. 22  
Page 1 of 2  
Witness: Jim Adkins

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

- Q. Provide the following accounting entries for the books of South Kentucky. The entries should conform to the requirements of the RUS Uniform System of Accounts.
- a. The entries to be made to record the purchase of the MEPB fixed assets. Include all entries associated with the 30 year note and the payment of memberships.
  - b. The entries to be made to record the purchase and subsequent sale of the Monticello substation.
  - c. The entries to be made to record the purchase and subsequent sale of the TVA 69 kV transmission line.

- R. a Provided below is the expected entry to be made to record the purchase of the fixed assets of the MEPB.

<u>Acct No</u>	<u>Description</u>	<u>Debit Amount</u>	<u>Credit Amount</u>
360-373	Various distribution plant accounts	3,775,500	
389-399	Various general plant accounts	910,500	
224.14	Mortgage notes payable		4,400,000
131.1	Cash		286,000
	To record purchase of MEPB fixed assets		
131.1	Cash	86,000	
200	Memberships		86,000
	To record the payment of the memberships of current customers of MEPB		

- b. Provided below is the expected entry to be made to record the sale of the distribution substation.

<u>Acct No</u>	<u>Description</u>	<u>Debit Amount</u>	<u>Credit Amount</u>
131/145	Cash/Notes receivable	1,200,000	
360-368	Various distribution plant accounts		1,200,000

**SOUTH KENTUCKY RECC  
CASE NO. 2007-00274**

Item No. 22  
Page 2 of 2  
Witness: Jim Adkins

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

- c. No entries are provided for the transaction dealing with the transmission line as it expected that EKPC will purchase that directly from the TVA without without any participation from SKRECC in this transaction.



SOUTH KENTUCKY RECC  
CASE NO. 2007-00374

RESPONSE TO COMMISSION STAFF'S FIRST DATA REQUEST

Item No. 23

Page 1 of 2

Witness: Allen Anderson

Q. Indicate when South Kentucky plans to seek a change in its service territory to reflect the proposed transaction.

R. South Kentucky does not believe it is required under KRS Chapter 278 to seek a change in its service territory. Geographic service areas (service territories), are mandated by KRS 278.016 which provides, in relevant part, as follows: "... except as otherwise provided, no retail electric supplier shall furnish retail electric service in the certified territory of another retail electric supplier." Chief among the stated goals of requiring separate geographic territories is encroachment by one retail electric supplier into the certified territory of another. In fact, all of the stated goals in KRS 278.016 (orderly development, elimination of wasteful duplication, promotion of aesthetic landscapes and prevention of waste of materials and natural resources) are accomplished by establishment of geographic territories for retail electric suppliers and prohibiting them from encroaching on the territory of another. Likewise, KRS 278.018(1) prohibits one retail electric supplier furnishing service to consumers within another retail electric supplier's certified territory.

A retail electric supplier is defined at KRS 278.010(4) as "any person, firm, corporation, association, or cooperative corporation, excluding municipal corporations engaged in the furnishing of retail electric service." (emphasis added). Thus, South Kentucky, as a retail electric supplier cannot, pursuant to its geographic territory limitations, furnish service to another retail electric supplier's territory without Commission approval. But the Monticello Electric Plant Board, as a municipal corporation, is not a "retail electric supplier" and therefore South Kentucky is not precluded from furnishing retail electric service to the area which has been serviced by the Monticello Electric Plant Board since 1936 without requiring the Commission to hear evidence and amend South Kentucky's certified territory. Not being an area which is part of any other retail electric supplier's certified territory, South Kentucky is not prohibited by KRS 278.016 and KRS 278.018(1) from furnishing electric service to a non-retail electric supplier's area.

The Monticello Electric Plant Board has furnished electricity to its area since 1936 and therefore does not appear to be a “new electric-consuming facility” mentioned in KRS 278.018. As a municipal corporation, its area is exempt from Commission regulation and its area is not included on the Commission’s map of certified territories. However, since the area will be new to South Kentucky, the Commission may nonetheless deem the area as a new electric-consuming facility (although South Kentucky does not believe it is). If that is the case, Commission action is not required pursuant to KRS 278.018(2) which addresses who shall furnish electricity to a new electric-consuming facility area not as yet included in a map of certified territories. By this statute, retail electric service shall be furnished by “the retail electric supplier which has an existing distribution line in closer proximity to such electric-consuming facility than is the nearest existing distribution line of any other retail electric supplier.” The City of Monticello is surrounded on all sides by South Kentucky’s certified territory and it is not even necessary to provide a distance of the nearest distribution line as no other retail electric supplier is close to Monticello.

Thus, Commission consideration of a change in South Kentucky’s service territory is not required. First, South Kentucky can freely furnish electricity to the area serviced by the Monticello Electric Plant Board since that area is not within the service territory of any other retail electric supplier. Second, even if the area is deemed a “new electric-consuming facility”, South Kentucky has the statutory right to furnish electricity as the closest retail electric supplier.