

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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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 )

SOUTH KENTUCKY'S RESPONSE TO INFORMAL  
CONFERENCE MEMORANDUM OF OCTOBER 26, 2007

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South Kentucky Rural Electric Cooperative Corporation ("South Kentucky") files this response to the Intra-Agency Memorandum submitted by Hon. Quang D. Nguyen on October 26, 2007 which resulted from the first Informal Conference held in this case on October 25, 2007.

ISSUE PRESENTED

At issue is the effect of potential increases in TVA's wholesale rates and how such potential increases would be reflected in the base rates for former Monticello Electric Plant Board (MEPB) customers. Commission staff advised South Kentucky to file the within response to express its proposed solution.

DISCUSSION

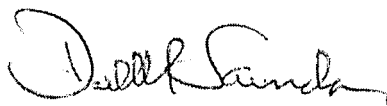
South Kentucky is obligated by its contract with MEPB to provide electric service at TVA rates until December 31, 2008. South Kentucky proposes to file new tariffs reflecting the TVA rates for former customers of the MEPB which have similar retail rate classes as South Kentucky's current customers. After December 31, 2008, the MEPB customers will pay the same rates as other South Kentucky customers. Since the retail rate classes are similar, the TVA rates

for former MEPB customers can be considered as “addenda” to South Kentucky’s current rate design which will not change. In the event TVA increases its wholesale rate during the interim, the increase will be allocated to each class of ratepayer and within each tariff proportionately and can thereby be “passed through” to the customer pursuant to KRS 278.455(2) without formal proceedings as, to quote from the statute, “the rates and tariffs of the distribution cooperative (South Kentucky) that have been revised on a proportional basis to result in no change in the rate design shall be authorized”.

Additionally, South Kentucky is obligated by contract to charge the former MEPB customers the TVA rate until December 31, 2008. To this end, the existing MEPB-TVA contract will be assigned to South Kentucky dictating the rate structure for the TVA supplied customers. As explained above, South Kentucky will file and display schedules reflecting the rates and conditions of service applicable to the former MEPB customers and does not intend to rely upon KRS 278.160(3) exempting disclosure of the provisions of its contracts with MEPB and TVA containing rates and conditions of service as “special contracts”. However, KRS 278.455(3), regarding increases in wholesale rates, does indicate that restrictions imposed in that statute for increases shall not apply to special contracts under which the rates are subject to change or adjustment only as stipulated in the contract. For this additional reason, South Kentucky believes it is fully authorized, indeed is obligated, to reflect any increase by TVA of its wholesale rates without resort to any other statute, regulation or special procedure.

#### CONCLUSION

For the foregoing reasons, South Kentucky believes it can adequately accommodate any TVA increases in wholesale rates which may occur during the limited time it will be charging TVA rates to the former MEPB customers.



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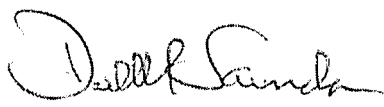
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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the above and foregoing was this 29th day of November, 2007 deposited in the regular United States mail, all postage prepaid and addressed for delivery to the following:

1. Mr. Quang Nguyen, Public Service Commission, 211 Sower Blvd., P.O. Box 615, Frankfort, KY 40602-0615 and via e-mail to quangD.Nguyen@ky.gov.
2. Mr. Dennis Howard, II, Assistant Attorney General, Capitol Building, Suite 118, Capitol Avenue, Frankfort, KY 40601 and via e-mail to dennis.howard@ag.ky.gov.

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