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March 31, 2017

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APR 5 2017

Public Service
Commission

VIA USPS

Dr. Talina Mathews
Executive Director
Kentucky Public Service Commission
P.O. Box 615
211 Sower Boulevard
Frankfort, KY 40602

Re: IN THE MATTER OF APPLICATION OF NOLIN RURAL ELECTRIC
COOPERATIVE CORPORATION FOR AN ADJUSTMENT OF EXISTING
RATES
Case No. 2016-00367

Dr. Mathews:

Please find enclosed and accept for filing on behalf of Nolin Rural Electric Cooperative Corporation ("Nolin") one (1) original and ten (10) copies of Nolin's Supplemental Response to Item No. 23 of the Supplemental Request for Information propounded by the Attorney General in the above-referenced matter.

Pursuant to applicable regulation, I certify that copies of this letter and the enclosure have been served this same date via first class mail, postage-prepaid, upon the Attorney General, by and through his Office of Rate Intervention, at his offices in Suite 20 of the Kentucky State Capitol.

Respectfully,



Mark David Goss

Enclosures

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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Public Service
Commission

IN THE MATTER OF:

APPLICATION OF NOLIN RURAL ELECTRIC)
COOPERATIVE CORPORATION FOR AN) CASE NO. 2016-00367
ADJUSTMENT OF EXISTING RATES)

VERIFICATION OF MICHAEL L. MILLER

STATE OF KENTUCKY)
COUNTY OF Hardin)

Michael L. Miller, being duly sworn, states that he has supervised the preparation of the following supplemental response of Nolin Rural Electric Cooperative Corporation to a request for information propounded by the Office of the Attorney General in the above-referenced case on March 2, 2017, and that the matters and things set forth in the response are true and accurate to the best of his knowledge, information and belief, formed after reasonable inquiry.

Michael L. Miller
Michael L. Miller

Subscribed and sworn to before me on this 31st day of March, 2017.

Allison J. Coffey
NOTARY PUBLIC, Notary # 563985
Commission expiration: August 29, 2020

Nolin Rural Electric Cooperative Corporation
Case No. 2016-00367
Supplemental Response to Attorney General's Supplemental Data Request

23. Reference Nolin's response to AG 1-36. Do Nolin's ratepayers have to pay for any of the costs that Nolin incurs from its arrangement with Fort Knox? Do Nolin's ratepayers receive any benefit from its arrangement with Fort Knox? Explain the answers in full detail.

Original Response:

Nolin ratepayers do not pay any of the Fort Knox expenses. During the most recent Fort Knox contract fiscal year (June 2015 Thru May 2016) Nolin received \$660,019 income from Fort Knox operations. Income from Fort Knox has declined over the last several years because of fewer income producing projects. During all the years Nolin has contracted with Fort Knox, all income has gone to subsidize the rates Nolin members pay for their electricity. Now that Fort Knox income has declined and is not off-setting rates, the difference must be made up. Nolin members have benefited tremendously from the Fort Knox contracts since 1996. Starting in 1996 and continuing through the end of Fort Knox fiscal year 2016, Nolin has realized net income of approximately \$16 million on the Fort Knox contracts. This has helped keep Nolin members bills lower and has delayed rate increases. All contracting formats that Nolin has participated in at Fort Knox have been "cost plus margin" arrangements, thus a net gain to Nolin members.

Supplemental Response:

Nolin desires to supplement its response to this item in an effort to provide additional clarity with respect to the impact its Fort Knox operations (and, specifically, its 2015 settlement with the federal government) had/have on Nolin's ratepayers and this proceeding.

As described in Nolin's original response to this item, Nolin's Fort Knox activities during the past two (2) decades have been exceedingly beneficial for Nolin's ratepayers. During this timeframe, all of Nolin's activities at Fort Knox have been performed on a "cost plus margin" basis.

Historically, Fort Knox has paid for projects undertaken by Nolin in one of two ways: either Fort Knox paid for actual project costs as they were incurred and paid an additional amount as margin, or Fort Knox has amortized actual project costs over a period of time and paid interest on the amounts outstanding. In this later scenario, Nolin essentially

financed the project (most often utilizing its own general funds) and earned interest at the contracted rate on the project costs it advanced.

In some instances, Nolin's cash-flow requirements necessitated the borrowing of funds from a third party lender, namely CFC, in order to replenish the general funds that had been expended in order to finance one or more projects at Fort Knox.

At the time of the 2015 settlement with the federal government, Nolin's general funds were substantially depleted as a result of projects undertaken and financed by Nolin for Fort Knox. For this reason, Nolin drew \$8,000,000 from an existing CFC loan on or about April 27, 2015, and utilized \$6,704,703 of the CFC funds to pay the lump-sum portion of the settlement amount and retained the remaining \$1,295,297 in general funds to use for other cash needs.

Importantly, the amount Fort Knox will ultimately pay Nolin for the financed projects which depleted Nolin's general funds (*i.e.*, principal plus interest) will entirely offset the amount Nolin will ultimately pay CFC for the \$6,704,703 borrowed. Moreover, the settlement payment made by Nolin to the United States occurred outside of the test year in this case (which began in May 2015), and thus the extraordinary loss recorded by Nolin in April of 2015 is not reflected in the revenue requirements upon which Nolin bases its proposed rate increase. In fact, the amount of revenue Nolin seeks to recover through its proposed retail rates is effectively decreased as a result of Nolin's Fort Knox operations, as the test year includes the positive margins Nolin realized from its contractual arrangements with Ft. Knox during the test year.

The positive margins/interest earned by Nolin from its Fort Knox operations have allowed member rates to remain steady and helped delay the need for a rate increase. Between 1996 and 2016, positive returns attributable to Nolin's Fort Knox operations totaled approximately \$23,019,000. Even after recognizing the settlement Nolin paid the United States in April of 2015, Nolin's business with Fort Knox has resulted in an approximately \$16.2 million benefit to Nolin's ratepayers.