




Shelby Energy Cooperative

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PUBLIC SERVICE
COMMISSION

February 3, 2017

Talina R. Matthews, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602

Re: In the Matter of Adjustment of Rates
of Shelby Energy Cooperative, Inc.
Case No. 2016-00434

Dear Ms. Matthews:

Please find enclosed the original responses to the Commission's Order "Commission Staff's First Request for Information to Shelby Energy Cooperative, Inc. Corporation" dated February 20, 2017.

Should you have any questions, or need additional information, please let me know.

Respectfully submitted,

Don Prather *DP: yew*

Donald T. Prather, Attorney
Counsel for Shelby Energy Cooperative, Inc.

Enclosure

www.shelbyenergy.com

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PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of Adjustment of Rates
Of Shelby Energy Cooperative, Inc.

Case No. 2016-00434

APPLICANT'S RESPONSES TO
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION

The applicant, Shelby Energy Cooperative, Inc., makes the following responses to the "Commission Staff's First Request for Information", as follows:

1. The witnesses who are prepared to answer questions concerning each request are Debra J. Martin and James R. Adkins.
2. Debra J. Martin, President & CEO of Shelby Energy Cooperative, Inc. is the person supervising the preparation of the responses on behalf of the applicant.
3. The responses and Exhibits are attached hereto and incorporated by reference herein.



Donald T. Prather, Attorney-A-Law
500 Main Street
Shelbyville, Kentucky 40065
Attorney for Shelby Energy Cooperative, Inc. Corporation
donaltdprather@gmail.com

The undersigned, Debra J. Martin, as President & CEO of Shelby Energy Cooperative, Inc., being duly sworn, states that the responses herein are true and accurate to the best of my knowledge and belief formed after reasonable inquiry.

Dated: February 14, 2017

SHELBY ENERGY COOPERATIVE, INC.


DEBRA J. MARTIN, PRESIDENT & CEO

Subscribed, sworn to, and acknowledged before me by Debra J. Martin, as President & CEO for Shelby Energy Cooperative, Inc. on behalf of said Corporation this 14th day of February, 2017.




Notary Public, Kentucky State At Large

My Commission Expires: June 24, 2020

The undersigned, James R. Adkins, as Consultant of Shelby Energy Cooperative, Inc., being duly sworn, states that the responses herein are true and accurate to the best of my knowledge and belief formed after reasonable inquiry.

Dated: February 14, 2017

SHELBY ENERGY COOPERATIVE, INC.


JAMES R. ADKINS, CONSULTANT

Subscribed, sworn to, and acknowledged before me by James R. Adkins, as Consultant for Shelby Energy Cooperative, Inc. Corporation on behalf of said Corporation this 14th day of February, 2017.




Notary Public, Kentucky State At Large

My Commission Expires: June 24, 2020

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1. Provide in comparative form, a detailed income statement, a statement of cash flows, and a balance sheet for the test year and the 12-month period immediately preceding the test year.

Response 1:

Refer to Exhibit V of the Application.

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2. Provide Shelby Energy's rate of return on net investment rate base for the test year and each of the five most recent calendar years. Include the date used to calculate each return.

Response 2:

Refer to Exhibit K of the Application.

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3. Provide Shelby Energy's times interest earned ratio ("TIER"), operating TIER and debt service coverage ratio, as calculated by the Rural Utilities Service ("RUS"), for the test year and the five most recent calendar years. Include the data used to calculate each ratio.

Response 3:

Refer to Exhibit K of the Application.

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4. Provide "Kentucky's Electric Cooperatives Operating Expense and Statistical Comparisons" for the two most recent years available.

Response 4:

Refer to Exhibit 17 of the Application.

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5. Provide Shelby Energy's capital structure at the end of each of the periods shown in Format 5.

Response 5:

Refer to Exhibit Z of the Application.

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6. a. List all outstanding issues of long-term debt as of the end of the latest calendar year and the end of the test period together with the related information as shown in Format 6a. A separate schedule is to be provided for each time period. Report in Column (k) of Format 6a, Schedule 2, the actual dollar amount of debt cost for the test year. Compute the actual and annualized composite debt cost rates and report them in Column (j) of Format 6a, Schedule 2.

Response 6a:

Refer to Exhibit 5 of the Application.

b. Provide an analysis of end-of-period short-term debt and a calculation of the average and end-of-period cost rates as shown in Format 6b.

Response 6b:

Refer to Exhibit 5 of the Application

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7. Provide a trial balance as of the last day of the test year showing account number, subaccount number, account title, subaccount title, and amount. The trial balance shall include all asset, liability, capital, income, and expense accounts used by Shelby Energy. All income statement accounts should show activity for 12 months. Show the balance in each control account and all underlying subaccounts per company books.

Response 7:

Refer to Exhibit Y of the Application.

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8. Provide the following:

a. A schedule as shown in Format 8, comparing the balances for each balance sheet account or subaccount included in Shelby Energy's chart of accounts for each month of the test year to the same month of the 12-month period immediately preceding the test year.

Response 8a:

Refer to Exhibit W of the Application.

b. A schedule as shown in Format 8, comparing the balances for each income statement account or subaccount included in Shelby Energy's chart of accounts for each month of the test year to the same month of the 12-month period immediately preceding the test year. The amounts should reflect the income or expense activity for each month, rather than the cumulative balances as of the end of the particular month.

Response 8b:

Refer to Exhibit X of the Application.

c. A listing, with descriptions, of all activities initiatives, or programs undertaken or continued by Shelby Energy since its last general rate case for the purpose of minimizing cost or improving the efficiency of its operations or maintenance activities.

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Response 8c:

Shelby Energy's management team works toward continued improvement of providing our members with safe, reliable and cost-effective energy. The following represents efforts implemented since our last rate adjustment filed in 2010 along with continued cost saving actions prior to that time:

- 1) Installed a global positioning system ("GPS") for mapping in 2010 to replace paper maps which improved service response and saved employee time in the field and served as a platform for an Outage Management System ("OMS") to improve outage restoration by assisting with quicker and more accurate dispatching for outages.
- 2) Installed an OMS in 2010 to improve outage diagnosis and management, and reduce restoration response times, as well as enabling employees to more quickly and efficiently perform their duties. Shelby members have the capability to view an outage map on Shelby's website and by a smart phone application to ascertain outage and restoration information for their area.
- 3) Continue to monitor the system average interruption duration index ("SAIDI") for our member-owners and our average restoration time ("CAIDI"); resulting in improved reliability and reduced outage costs by consistently evaluating the outage cause and comparing with restoration times resulting in a continuous efficiency improvement culture.

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- 4) Installed a digital telephone system in 2015 to allow members improved and greater access to communicate with the cooperative for general business and outage reporting. This has enhanced service to members by providing additional hubs and ports that permit overflow calls to be directed to other employees within the organization and reduced the need to add staff.
- 5) Continue to utilize supervisory control and data acquisition system ("SCADA") to improve monitoring of the distribution system, speed diagnosis or outage locations, and allow for remote control of certain distribution equipment; all of which reduce employee time spent on various tasks.
- 6) Continue membership with the Cooperative Response Center, Inc., to provide 24-7 telephone answering service for Shelby members. This has reduced the need to add staff for a 24-7 dispatch department, while providing around-the-clock service for billing inquiries, payments, and outage reporting.
- 7) In 2010, Shelby Energy began changing transformers from Completely Self-Protected ("CSP") types to Conventional-type units. All new units purchased are Conventional type. This allows for better fuse protection in the field, fewer damaged transformers due to lightning, and much faster and less-costly service restoration during outages. In addition, Shelby Energy takes advantage of a refurbishing program for those transformers that can be restored at a reasonable cost and those transformers serving larger loads, that require special ordering and result in long lead times for delivery.

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- 8) Effective September 2009, Shelby Energy no longer offers the NRECA's Retirement and Security Plan for new hires. It has since been changed to a 401K contribution to provide reduced costs for the cooperative and encourage employee contributions.
- 9) Participated in the voluntary prepay option with NRECA's Retirement and Security defined benefit retirement plan to reduce current and future contribution costs.
- 10) Implemented Prepay service option in 2013 for members. This optional service has benefited members by providing an alternative to paying a cash security deposit, it provides members the opportunity to monitor energy usage, it offers members the ability to receive balance and transaction notifications by e-mail and/or text, and the Prepay service lets the member better manage their cash flow and pay as they go. In addition, it has reduced the number of late notices produced and mailed, the need to dispatch employees for cutoff of delinquent accounts, the time spent by employees making/receiving telephone calls regarding delinquent notices and disconnect for non-payment and has contributed to a significant reduction in write-offs for bad debts.
- 11) Implemented a smart phone application in 2013 which allows members to monitor their energy usage, manage, and pay their bills using their phone at their convenience.

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- 12) All extended or unusual outages are reviewed using a continuous improvement approach to determine root cause of the outage and institute corrective process changes where possible to prevent similar occurrences. This ties directly to the "SAIDI" and "CAIDI" ratios.
- 13) Refinanced existing RUS long-term debt on two occasions to lower long-term debt interest expense, once in 2011 and the second time in 2016.
- 14) Used, historically low, variable interest rates on approximately 40% of the loan portfolio to reduce overall cost of interest on debt from 2010 to present.
- 15) Continue to participate in the Kentucky Rural Electric Cooperative ("KREC") medical insurance plan to reduce and moderate costs for employee health insurance. The KREC plan has contained costs and controlled increases to insurance premiums for more than five years.
- 16) Installed two remote payment system ("RPS") units within the service territory for the convenience of Shelby members. One RPS was placed in service in 2006 and another unit in 2012; for Henry and Trimble counties respectively. By offering multiple payment locations, Shelby Energy experiences savings by reducing disconnects for non-pay, delinquent notices, uncollectible accounts/write-offs and avoiding additional district offices and employees.
- 17) Implemented electronic staking in 2016 to improve the utilization of the GPS mapping already in place. This has proven to organize the workflow process of work orders to provide a quicker response to member's requests for

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- 18) service. This project will also assist in providing a more accurate account of materials inventory.
- 19) In the process of developing electronic forms that permits members to request new service, termination of service, outdoor light repair and energy audits online. The online availability date is targeted for the last quarter of 2017. Members currently have electronic forms available for printing to sign and return to the office for automatic payment (Bank Draft Service) or budget billing (Fixed or Levelized).
- 20) Transfer of Member Services Representative to the position of Billing & Customer Service Specialist to better utilize available staff and avoid addition of another employee.

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9. Provide the following information for each item of the electric property or plant held for future use at the end of the test year.

- a. Description of property;
- b. Location;
- c. Date purchased;
- d. Cost;
- e. Estimated date to be placed in service;
- f. Brief description of intended use; and
- g. Current status of each project.

Response 9:

Shelby Energy does not have property held for future use.

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10. List all non-utility property, related property taxes, and the accounts where amounts are recorded for the test period. Include a description of the property, the date purchased, and the cost.

Response 10:

Shelby Energy does not have non-utility property.

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11. Provide all studies, including all applicable work papers, which are the basis of jurisdictional plant allocations and expense account allocations.

Response 11:

Not applicable.

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12. Provide Shelby Energy's current bylaws. Indicate any changes to the bylaws since Shelby Energy's most recent general rate case.

Response 12:

Refer to Exhibit U of the Application.

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13. Provide Shelby Energy's equity management plan. Indicate when the plan was adopted and identify any changes made in the plan since the period used as the test year in Shelby Energy's most recent rate case. Provide a five-year analysis of the amount of capital credits refunded to members under the plan and indicate the amounts related to general retirements and special retirements (i.e., estates of deceased patrons).

Response 13:

Refer to Exhibit 20 of the Application.

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14. Provide Shelby Energy's written policies on the compensation of its attorneys, auditors, and all other professional service providers. Include a schedule of fees, per diems, and other compensation in effect during the test year. Include all agreements, contracts, memoranda of understanding, and any other documentation that explains the nature and type of reimbursement paid for professional services. If any changes occurred during the test year, the effective date of these changes, and the reason for these changes.

Response 14:

Refer to Exhibit 9 of the Application.

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15. Provide Shelby Energy's policies specifying the compensation of directors and a schedule of standard directors' fees, per diems, and other compensation in effect during the test year. If changes occurred during the test year, indicate the effective date and the reason for the changes.

Response 15:

Refer to Exhibit 10 of the Application.

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16. Provide the date, time, and a general description of the activities at the most recent annual members' meeting. Indicate the number of new board members elected. For the most recent meeting and the five previous annual members' meetings, provide the number of members in attendance, the number of members voting for new board members, and the total cost of the annual meeting.

Response 16:

Refer to Exhibit P of the Application.

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17. Provide the following:
- a. A schedule showing, by customer class (e.g., residential, commercial, and industrial) the amount and percentage of any proposed increase or decrease in revenue distributed to each class. Provide a detailed explanation of the methodology or basis used to allocate the requested increase or decrease in revenue to each of the respective customer classes.
 - b. A schedule showing how the increase or decrease in (a) above was further distributed to each rate charge (e.g., customer or facility charge, kilowatt hour ("kWh") charge). Explain in detail the methodology or basis used to allocate the increase or decrease.
 - c. If the rate schedule contains a demand charge, describe in detail how the proposed demand charge was determined. Provide all calculations, assumptions, work papers, methodologies, etc., used in the development of the proposed demand charge.
 - d. If the rate schedule contains a monthly customer charge, describe in detail how the proposed customer charge was determined. Provide all calculations, assumptions work papers, methodologies, etc., used to develop the proposed customer charge.

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e. A reconciliation of the Fuel Adjustment Clause ("FAC") revenue and expense for the test year. The net result of this adjustment should be to remove all FAC revenue and expense from test-year revenue and expense.

f. A reconciliation of the Environmental Surcharge ("ES") revenue and expense for the test year. The net result of this adjustment should be to remove all ES revenue and expense from test-year revenue and expense.

Response 17a-f:

Refer to Exhibit G and Exhibit J of the Application.

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18. For each rate schedule (rate class), provide the following information for the test year:

- a. Number of customers;
- b. KWh sales;
- c. Rate schedule's percent of Shelby Energy's total kWh sales;
- d. Monthly peak kilowatt ("kW") demands for the rate schedule;
- e. Total revenue collected; and
- f. Rate schedule's percentage of Shelby Energy's total revenues.

Response 18a-f:

Refer to Exhibit J of the Application.

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19. Provide a schedule of purchased power costs for the test year and the 12-month period immediately preceding the test year, by vendor, separated into demand and energy components. Include kW and kWh purchased. Indicate any estimates used and explain their use in detail.

Response 19:

Refer to Exhibit 14 of the Application.

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20. Describe how the test-year capitalization rate was determined. If differing rates were used for specific expenses (e.g., payroll, transportation clearing accounts, and depreciation), indicate the rate and how it was determined. Indicate all proposed charges to the test-year capitalization rate and how they were determined.

Response 20:

Refer to Exhibit 19 of the Application.

No changes are proposed to the test year allocations.

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21. Provide the following:

a. A schedule of salaries and wages for the test year and each of the three calendar years preceding the test year as shown in format 21a. For each time period, provide the amount of overtime pay.

b. A schedule showing the percentage of increase in salaries and wages for both union and non-union employees for the test year and the five preceding calendar years.

Response 21a-b:

Refer to Exhibit 1 of the Application.

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22. Provide the following payroll information for each employee:
- a. The actual regular hours worked during the test year;
 - b. The actual overtime hours worked during the test year;
 - c. The test year end wage rate for each employee and the date of the last increase.
 - d. A calculation of the percentage of increase granted during the test year, and.
 - e. The annual percentage of increase granted for both salaried and hourly employees for 2012 to 2016. The information shall identify all the employees as either salaried or hourly, and also as either full-time, part-time, or temporary. Employee numbers or other identifiers may be used instead of employee names. Include an explanation of how the overtime pay rate is determined. All employees terminated during the test year shall be identified (along with the month in which the termination occurred), as well as those employees who replaced terminated employees or were otherwise added to the payroll during the test year. If Shelby Energy has more than 100 employees, the above information may be provided by employee classification.

Response 22a-e:

Refer to Exhibit 1 of the Application.

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23. Provide the following payroll tax information:
- a. The base wages and salaries used to calculate the taxes, with an explanation of how the base wages and salaries were determined.
 - b. The tax rates in effect at test-year-end.

Response 23a-b:

Refer to Exhibit 2 of the Application.

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24. Provide the following tax data for the test year:
- a. A schedule of franchise fees paid to cities, towns or municipalities during the test year, including the basis of these fees.
 - b. An analysis of operating taxes imposed by Kentucky as shown in Format 24b.

Response 24a-b:

Refer to Exhibit 4 of the Application.

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25. Provide a statement of electric plant in service, per company books, for the test year. This data shall be presented as shown in Format 25.

Response 25:

Refer to Exhibit 3 of the Application.

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26. Provide a schedule of all employee benefits available to Shelby Energy's employees. Include the number of employees at test-year-end covered under each benefit, the test-year-end actual cost of each benefit, the amount of the cost capitalized, the amount of the cost expensed, and the account numbers in which the capitalized or expensed costs were recorded.

Response 26:

Refer to Exhibit 19 of the Application.

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27. Provide a schedule reflecting the salaries and other compensation of each executive officer for the test year and two preceding calendar years. Include the percentage annual increase and the effective date of each increase, the job title, duty and responsibility of each officer, the number of employees who report to each executive officer, and to whom each executive officer reports. Also, for employees elected to executive officer status during the test year, provide the salaries, for the test year for those persons whom they replaced.

Response 27:

Refer to Exhibit 1 of the Application.

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28. Provide a detailed analysis of advertising expenditures during the test year. Include a breakdown of Account No. 913, Advertising Expenses, as shown in Format 28, and show any advertising expenditures included in other expense accounts. Specify the purpose and expected benefit of each expenditure.

Response 28:

Refer to Exhibit 11 of the Application. There were no expenses recorded in Account 913 for the test year.

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29. Provide an analysis of Account No. 930, Miscellaneous General Expenses, for the test year. Include a complete breakdown of this account as shown in Format 29. Include all detailed workpapers supporting this analysis. At a minimum, the workpapers shall show the date, vendor, reference (i.e., voucher no., etc.), dollar amount, and a brief description of each expenditure. Detailed analysis is not required for amounts less than \$100 provided the items are grouped by classes as shown in Format 29.

Response 29:

Refer to Exhibit 11 of the Application.

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30. Provide an analysis of Account No. 426, Other Income Deductions, for the test period. Include a complete breakdown of this account as shown in Format 30, and provide all detailed supporting work papers. At a minimum, the work papers should show the date, vendor, reference (e.g., voucher number), amount, and brief description of each expenditure. Detailed analysis is not required for amounts of less than \$250 provided the items are grouped by classes as shown in Format 30.

Response 30:

Refer to Exhibit 8 of the Application.

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31. Provide the name and personal mailing address of each member of Shelby Energy's board of directors. Identify the members who represent the cooperative on the board of directors of East Kentucky Power Cooperative, Inc. ("EKPC"). Also identify the board members who are representatives to the Kentucky Association of Electric Cooperatives and/or the National Rural Electric Cooperative Association. If any changes occurred in board membership, during the course of this proceeding, update your response to this request.

Response 31:

Refer to Exhibit 10 of the application.

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32. Provide a detailed analysis of the total compensation paid to each member of the board of directors during the test year, including all fees, fringe benefits, and expenses, with a description of the type of meetings, seminars, etc. attended by each member. Identify any compensation to Shelby Energy's board members for serving on EKPC's board of directors. If any expenses in this analysis include the costs for a director's spouse, list expenses for the director's spouses separately.

Response 32:

Refer to Exhibit 10 of the Application. No expenses for Director's spouses are included because there aren't any.

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33. Provide a detailed analysis of expenses incurred during the test year for professional services, as shown in Format 33. Include detailed work papers supporting this analysis which show the payee, amount, reference (e.g., voucher number), account charged, hourly rates and time charged to the utility according to each invoice, and a brief description of the service provided. Identify all rate case work by case number.

Response 33:

Refer to Exhibit 9 of the Application.

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34. Provide the following information concerning the costs for the preparation of this case:

a. A detailed schedule of costs incurred to date. Include the date of the transaction, check number or other document reference, the vendor, amount, a description of the services performed, and the account number in which the expenditure was recorded. Indicate any costs incurred for this case during the test year. Include copies of invoices received from the vendors.

b. An itemized estimate of the total cost to be incurred, detailed explanation of how the estimate was determined, and all supporting work papers and calculations.

c. Monthly updates of the actual costs incurred during the course of this proceeding, in the manner prescribed above.

Response 34a-b:

Refer to Exhibit 12 of the Application. The estimated expense does not include internal costs as these would be incurred anyway.

Response 34c:

Shelby Energy will provide updates as each month's activity is available.

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35. Provide the estimated dates for draw downs of unadvanced loan funds at test-year-end and the proposed uses of these funds.

Response 35:

Shelby Energy has no definite plans to advance additional loan funds but will continue to monitor its cash situation and will advance funds when necessary.

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36. Provide a list of depreciation expenses using Format 36.

Response 36:

Refer to Exhibit 3 of the Application.

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37. Explain whether the depreciation rates reflected in this filing are identical to those most recently approved by the Commission.

- a. If identical, identify the case in which they were approved.
- b. If not, provide the depreciation study that supports the rates reflected in this filing.

Response 37:

- a. Shelby Energy has updated its depreciation study and has incorporated the proposed rates in this application.
- b. The updated depreciation study has been filed with this Commission as Exhibit 21 of the application.

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38. Provide information for plotting the depreciation guideline curves in accordance with RUS Bulletin 183-1, as shown in Format 38.

Response 38:

Refer to Exhibit 3 of the Application.

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39. For each charitable and political contribution (in cash or services), provide the amount, recipient, and specific account charged.

Response 39:

Refer to Exhibit 8 of the Application.

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40. Describe Shelby Energy's lobbying activities and provide a schedule showing the name and salary of each lobbyist; all company-paid or reimbursed expenses or allowances; and the account charged for all personnel for whom a principal function is lobbying, on the local, state, or national level; and indicate whether the lobbyist is an employee or an independent contractor. If any amounts are allocated, show a calculation of the factor used to allocate each amount.

Response 40:

Shelby Energy does not engage in lobbying activities.

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41. Provide complete details of the financial reporting and rate-making treatment of Shelby Energy's pension costs.

Response 41:

Shelby Energy has a defined benefit and 401(k) pension plan. The treatment is the same for financial reporting as rate-making purposes.

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42. Provide complete details of Shelby Energy's financial reporting and rate-making treatment of Statement of Financial Accounting Standard ("SFAS") No. 106, "Postretirement Benefits Other Than Pensions" including;

- a. The date Shelby Energy adopted or plans to adopt SFAS No. 106;
- b. All accounting entries made or to be made at the date of adoption;

and,

- c. All actuarial studies and other documents used to determine the level of SFAS No. 106 cost recorded or to be recorded by Shelby Energy.

Response 42:

a. Shelby Energy adopted SFAS No. 106 in January, 1995.

b. Employee benefits	926.00	\$476,000
Accum postretirement benefits	228.30	\$476,000

Initially record adoption of SFAS No. 106.

c. A copy of the latest study is attached. Exhibit AA.

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43. Provide complete details of Shelby Energy's financial reporting and rate-making treatment of Statement of Financial Accounting Standard ("SFAS") No. 112, "Postemployment Benefits," including;

- a. The date Shelby Energy adopted or plans to adopt SFAS No. 112.
- b. All accounting entries made or to be made at the date of adoption.
- c. All actuarial studies and other documents used to determine the level of SFAS No. 112 cost recorded or to be recorded by Shelby Energy.

Response 43a-c:

SFAS No. 112 does not apply to Shelby Energy.

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44. Provide complete details of Shelby Energy's financial reporting and ratemaking treatment of SFAS No. 143, "Accounting for Asset Retirement Obligations."

- a. The date Shelby Energy adopted or plans to adopt SFAS No. 143.
- b. All accounting entries made or to be made at the date of adoption.
- c. All actuarial studies and other documents used to determine the level of SFAS No. 143 cost recorded or to be recorded by Shelby Energy.
- d. A schedule comparing the depreciation rates utilized by Shelby Energy prior to and after adoption of SFAS No. 143. The schedule should identify the assets corresponding to the affected depreciation rates.

Response 44a-d:

SFAS No. 143 does not apply to Shelby Energy.

Shelby Energy Cooperative, Inc.
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45. Provide complete details of Shelby Energy's financial reporting and ratemaking treatment of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans."

- a. The date Shelby Energy adopted or plans to adopt SFAS No. 158.
- b. All accounting entries made or to be made at the date of adoption.
- c. All actuarial studies and other documents used to determine the level of SFAS No. 158 cost recorded or to be recorded by Shelby Energy.

Response 45:

- a. Adopted December 31, 2007
- b. Debit Account 215.30, Accumulated Other Comp Income and Credit Account 228.30, Accumulated Provision for Pensions and Benefits in the amount of \$1,106,360.
- c. This amount is included with the calculations for FASB No. 106.

Shelby Energy Cooperative, Inc.
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46. Provide any information as soon as it is known, describing any events occurring after the test year that would have a material effect on net operating income, rate base, and cost of capital that is not incorporated in the filed testimony and exhibits.

Response 46:

None are known at this time.

Shelby Energy Cooperative, Inc.
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47. Provide all current labor contracts and the most recent contracts in effect prior to the current contracts.

Response 47:

Refer to Exhibit 18 of the application.

Shelby Energy Cooperative, Inc.
Case No. 2016-00434
Commission Staff's First Request for Information

48. Regarding demand-side management, conservation, and energy efficiency programs, provide the following:

- a. A list of all programs currently offered by Shelby Energy;
- b. The total cost incurred for these programs during the test year and in each of the three most recent calendar years; and
- c. The total demand and energy reductions realized through these programs during the test year and in each of the three most recent calendar years.

Response 48:

a. Programs currently offered include:

Program
C&I Industrial Lighting and Compressed Air
Appliance Recycling
Button Up Program
CFL Bulb giveaway
Energy Audit
Energy Star Heat Pump
Energy Star Manufactured Home Program
Energy Star Clothes Washer
Energy Star Dishwasher
Energy Star Freezer
Energy Star Refrigerator
Heat Pump Retrofit
LED Promotional
DLC AC
DLC WH
Touchstone Energy Home

b. DSM Expense [all years presented are calendar years]

2015	\$28,311
2014	\$11,893
2013	\$11,410
2012	\$7,580

c. Net Demand Reduction [all years presented are calendar years]

Program	Year 2015		Year 2014	
	Participants	Kwh Savings	Participants	Kwh Savings
C&I Industrial Lighting	12	91,124	11	501,900
Appliance Recycling	5	3,480	0	0
Button Up-Level 1	3	4,638	4	5,818
CFL	1,000	63,000	1,000	63,000
Energy Audit	23	12,029	0	0
Energy Star Heat Pump	1	804	0	0
Energy Star Clothes Washer	19	6,650	0	0
Energy Star Dishwasher	9	711	0	0
Energy Star Freezer	8	536	0	0
Energy Star Refrigerator	8	536	0	0
Heat Pump Retrofit	26	196,101	8	56,881
LED Promotional	22	528	0	0
DLC AC	109	545	7	35
DLC WH	93	930	7	70
Touchstone Energy Home	0	0	1	2,568

Program	Year 2013		Year 2012	
	Participants	Kwh Savings	Participants	Kwh Savings
C&I Industrial Lighting	1	150,195	0	0
Appliance Recycling	0	0	0	0
Button Up-Level 1	0	0	1	2,404
CFL	1,000	63,000	1,000	63,000
Energy Audit	0	0	0	0
Energy Star Heat Pump	5	35,870	0	0
Energy Star Clothes Washer	0	0	0	0
Energy Star Dishwasher	0	0	0	0
Energy Star Freezer	0	0	0	0
Energy Star Refrigerator	0	0	0	0
Heat Pump Retrofit	9	67,280	3	21,225
LED Promotional	0	0	0	0
DLC AC	123	615	38	190
DLC WH	116	1,160	40	400
Touchstone Energy Home	3	7,704	1	2,568

Shelby Energy Cooperative, Inc.
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49. Provide separate schedules, for the test year and the 12-month period immediately preceding the test year that show the following information regarding Shelby Energy's investments in subsidiaries and joint ventures:

- a. Name of subsidiary or joint venture;
- b. Date of initial investment;
- c. Amount and type of investment;
- d. Balance sheet and income statement. Where only internal statements are prepared, furnish copies of these; and
- e. Name of officers of each of the subsidiaries or joint ventures, officer's annual compensation, and portion of compensation charged to the subsidiary or joint venture. Indicate the position that each officer holds with Shelby Energy and the compensation received from Shelby Energy.

Response 49:

- a. Shelby Energy Services Corporation
- b. September 15, 1997
- c. Initial Capital Investment of \$7,500
- d. Refer to Exhibit BB attached.
- e. Debra J. Martin, Chair
Denise Hume, Secretary Treasurer
Jared Routh, Board Member

No compensation is paid to officers by Shelby Energy Cooperative or any other entity.

Shelby Energy Cooperative, Inc.
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50. Provide separate schedules showing all dividends or income of any type received by Shelby Energy from its subsidiaries or joint ventures for the test year and the three years preceding the test year. Indicate how this income is reflected in the reports filed with the Commission and any reports to Shelby Energy's member customers.

Response 50:

Refer to Exhibit 22 of the application.

Shelby Energy Cooperative, Inc.
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Commission Staff's First Request for Information

51. Concerning non-regulated activities:

a. Is Shelby Energy engaged in any non-regulated activities? If yes, provide a detailed description of each non-regulated activity.

b. Is Shelby Energy engaged in any non-regulated activities through an affiliate? If yes, provide the name of each affiliate and the non-regulated activity in which it is engaged.

c. Identify each service agreement with each affiliate and indicate whether the service agreement is on file with the Commission. Provide a copy of each service agreement not already on file with the Commission.

d. Has Shelby Energy loaned money or property to any affiliate? If yes, describe in detail what was loaned, the terms of the loan, and the name of the affiliate.

Response 51a-d:

Shelby Energy does not have non-regulated or affiliate activities.

Shelby Energy Cooperative, Inc.
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52. a. Identify any smart grid costs incurred by Shelby Energy in the test year. Identify the accounts(s) where they are recorded and if the costs were expensed or capitalized.

b. Provide any smart grid costs that Shelby Energy has included in its most recently developed budget.

Response 52:

a. Shelby purchased \$76,320 in AMI equipment during the test year. These were single phase meters for new services and regular meter change outs.

b. Shelby included \$79,000 in its 2017 calendar year budget for AMI equipment. These were single phase meters for new services and regular meter change outs.

Shelby Energy Cooperative, Inc.
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Commission Staff's First Request for Information

53. Provide Shelby Energy's written compensation policy as approved by its Board of Directors.

a. Provide a narrative description of the compensation policy, including the reason for establishing the policy and Shelby Energy's objective for the policy.

b. Explain whether the compensation policy was developed with the assistance of an outside consultant. If the compensation policy was developed or reviewed by a consultant, provide any study or report provided by the consultant.

c. Explain when the compensation policy was last reviewed or given consideration by the Board of Directors.

Response 53:

a. Board Policy No. 902, Wage & Salary Administration, is included with this response as Exhibit CC. The policy provides a framework for a fair, consistent and systematic method of determining wage and compensation for new and current employees.

The policy covers the following items related to wage and salary management:

- objectives of the wage and salary plan;
- goals of the compensation system;
- job description and evaluation of that position;
- how the pay range and salary scale is established for each job along with starting salaries;
- how compensation is handled for a position with salary outside the established salary range;

Shelby Energy Cooperative, Inc.
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- how salary adjustments and approvals are processed;
- handling promotions/demotions/transfers and position upgrades;
- the process for adding staff;
- location of salary records and various purposes of those records;
- how to address discrepancies in pay; and
- provides criteria for the salary structure review.

b. The policy was established in October, 1975, but a full review and revision of the policy took place in September, 2008. This process involved developing a policy that better met the needs of Shelby Energy and its employees, along with establishing a structured and organized compensation plan for Shelby Energy. The update and revisions took place with the assistance of a human resources consultant, Ms. Nancye M. Combs, President of HR Enterprise, Inc, who is a specialist and educator in compensation.

In 2008 Ms. Combs provided a presentation giving a step-by-step process on how the plan was developed for Shelby Energy. The plan in place is a point factor analysis based plan, which is a quantitative analysis of each position based on the job description and results in an assigned job grade that reflects both internal and external equity. Each assigned grade has a range consistent with the formal practice of compensation that reflects the size of the business. The range of each grade is 50% wide and there is 10% between each grade.

Shelby Energy Cooperative, Inc.
Case No. 2016-00434
Commission Staff's First Request for Information

A copy of Ms. Combs presentation is included as Exhibit DD and a copy of Shelby Energy's Wage and Salary Plan as Exhibit FF. Due to the confidential nature of Ms. Combs presentation and Shelby Energy's Wage and Salary plan, the information is being filed under seal and subject to a motion of confidential treatment that is being provided with the responses.

c. Board Policy No. 902 was last reviewed in May, 2015 and is scheduled for review by the Shelby Energy board of directors in May, 2017. Board policies are routinely reviewed every two years, however; reviews are conducted and revisions made to the policy, as needed, if prior to the regularly scheduled review date.

Shelby Energy Cooperative, Inc.
Case No. 2016-00434
Commission Staff's First Request for Information

54. Explain whether the expenses for wages, salaries, benefits, and other compensation during the test year, and any adjustments to the test year, are compliant with the Board of Director's compensation policy.

Response 54:

The expenses for wages, salaries, benefits and other compensation during the test year, and any adjustments to the test year are compliant with Board Policy No. 902, Wage & Salary Administration.

Shelby Energy Cooperative, Inc.
Case No. 2016-00434
Commission Staff's First Request for Information

55. Explain whether, prior to making any adjustments to wages, salaries, benefits, and other compensation in the base rate case, Shelby Energy, through an outside consultant or otherwise, performed a study or survey to compare its wages, salaries, and benefits, and other compensation to those of other utilities in the region, or to other local or regional enterprises.

a. If comparisons were made, provide and discuss the results of such comparisons. Include the results of the study or survey with the response, including all work papers.

b. If comparisons were not made, explain why such comparisons were not performed.

Response 55a:

Shelby Energy does perform a survey to compare its wages, salaries and benefits with the assistance of a human resources consultant, Ms. Nancy Combs, President of HR Enterprise, Inc.

Based on the compensation plan established by Shelby Energy in 2008, an initial internal survey of wage and salary data is performed by Shelby Energy's human resources representative. The Shelby Energy representative uses state and regional wage information for cooperatives and wage data from the Bureau of Labor Statistics in Kentucky for comparable positions. Once the information is assembled from the

Shelby Energy Cooperative, Inc.
Case No. 2016-00434
Commission Staff's First Request for Information

three sources, the data is summarized and submitted to Ms. Combs for review and validation. Also, Ms. Combs includes a fourth set of wage information from another source available to Ms. Combs as a human resources expert. In direct collaboration with Ms. Combs, should a survey salary from any of the wage information be considered an outlier, it is verified, discussed and an adjustment is made to this data, as appropriate. The goal of this analysis is to assure the midpoint of each salary grade is a true reflection of the surrounding labor market for the position. This is consistent with the formal Wage & Salary Policy that employee pay reflect "market price" in the Shelby Energy labor market.

The wage and salary plan is used to direct any adjustments to wages and salaries of Shelby Energy employees. The plan is reviewed annually by the human resources consultant, Ms. Combs, and any recommended changes, if needed, are made at that time. As previously noted, the survey conducted for wage and salary comparisons includes four statistical data sources for comparison of local, state and regional areas.

A copy of the survey data and work papers for Shelby Energy are attached as Exhibit EE. Due to the confidential nature of the compensation plan and associated data, all information is being filed under seal and subject to a motion of confidential treatment that is being provided with the responses.

Shelby Energy Cooperative, Inc.
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Response 55b:

Not applicable

Shelby Energy Cooperative, Inc.
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56. Provide a copy of all exhibits and schedules that are included in Shelby Energy's rate application in Excel spreadsheet format with all formulas intact and unprotected and with all columns and rows accessible.

Response:

Refer to the USB memory stick for electronic files delivered with this first data request.

W. Dudley Shryock, CPA, PSC
CERTIFIED PUBLIC ACCOUNTANTS

P.O. BOX 542
LAWRENCEBURG, KENTUCKY 40342
(502) 839-8112

MEMBER
• AMERICAN INSTITUTE OF CPA'S
• KENTUCKY SOCIETY OF CPA'S

December 13, 2014

Debra Martin, President/CEO
Shelby Energy Cooperative Corporation
620 Old Finchville Road
Shelbyville, Kentucky 40065

Dear Debbie:

Please find enclosed the actuarial valuation results as of December 31, 2014 for Financial Accounting Standards Board's *Accounting Standards Codification ("ASC") 715 – Compensation – Retirement Plans*. The accrual for 2015 should be as follows, which includes current service and interest costs and amortization of and actuarial gains/losses.

	<u>Debit</u>	<u>Credit</u>
Account 926.10, Employee benefits	\$143,904	
Account 215.31, Accum Comp Income		\$11,039
Account 228.30, Accum Postretirement benefits		\$132,865
Record FAS 106 expense		

The entries to adjust comprehensive income at December 31, 2014 are as follows:

	<u>Debit</u>	<u>Credit</u>
Account 228.30, Accum Postretirement benefits	\$63,612	
Account 215.31, Accum Comp Income		\$63,612
Adjust for updated study.		

If you have any questions or would like to discuss these results, please give me a call.

Sincerely,

Dudley Shryock
W. Dudley Shryock, CPA

Exhibit 1
Shelby Energy Cooperative
SFAS No. 106/158 Financial Statement Disclosures
December 31, 2014

Net Periodic Benefit Cost

1.	Service cost	\$ 48,595
2.	Interest cost	110,272
3.	Expected return on plan assets	-
4.	Amortization of transition obligation	-
5.	Amortization gain / (loss)	22,441
6.	Net periodic benefit cost	<u>\$ 181,308</u>

Change in Accumulated Benefit Obligation

1.	Accumulated benefit obligation, beginning	\$ 1,989,227
2.	Service cost	48,595
3.	Interest cost	110,272
4.	Expected return on plan assets	-
5.	Amortization of transition obligation	-
6.	Amortization gain / (loss)	-
7.	Plan amendments	-
8.	Disbursements	(127,414)
9.	Accumulated other comprehensive income, initial	-
10.	Accumulated other comprehensive income	<u>(63,612)</u>
11.	Accumulated benefit obligation, ending	<u>\$ 1,957,068</u>

Change in Fair Value of Plan Assets

1.	Fair value of plan assets, beginning	\$ -
2.	Actual return on plan assets	-
3.	Employer contributions	-
4.	Benefits paid	-
5.	Administrative expenses	-
6.	Fair value of plan assets, ending	<u>\$ -</u>

Exhibit 2
Shelby Energy Cooperative
SFAS No. 106/158 Financial Statement Disclosures
December 31, 2014

Benefit obligations at end of year

1.	Accumulated benefit obligation (APBO)	\$ 1,976,807
2.	Expected benefit obligation (EPBO)	\$2,846,074

Statement of funded status

1.	Accumulated benefit obligation (APBO)	\$ (1,957,068)
2.	Fair value of plan assets	-
3.	Funded status of plan	<u>\$ (1,957,068)</u>

Amounts recognized in the statement of financial position

1.	Noncurrent assets	\$ -
2.	Current liabilities	-
3.	Noncurrent liabilities	<u>(1,957,068)</u>
4.	Funded status	<u>\$ (1,957,068)</u>

Amounts recognized in accumulated other comprehensive income

1.	Net loss (gain)	\$ (220,780)
2.	Transition obligation	-
3.	Total	<u>\$ (220,780)</u>

Other changes in plan assets and benefit obligations

recognized in other comprehensive income

1.	Beginning of year	<u>\$ (306,833)</u>
2.	Net loss (gain) current period	63,612
3.	Amortization of net loss (gain)	22,441
4.	Amortization of transition obligation	-
5.	Total recognized in other comprehensive income	<u>86,053</u>
6.	End of year	<u>\$ (220,780)</u>

Shelby Energy Cooperative
Medical Insurance Premiums
SFAS 106/158 Obligation as of December 31, 2014

	<u>2014</u>
A. Accumulated Postretirement Benefit Obligation (APBO) as of December 31, 2014 are as follows:	
1. Actives not yet eligible	\$ 772,988
2. Actives fully eligible	301,883
3. Retirees and dependents	901,935
4. Total APBO	<u>1,976,807</u>
B. Future accruals	<u>869,268</u>
C. Total Expected Postretirement Benefit Obligation (EPBO)	<u><u>\$ 2,846,074</u></u>
D. Accrued Postretirement Benefit Cost	
1. Balance January 1, 2014	\$ 1,989,227
2. Accrual	158,867
3. Payout	(127,414)
4. Balance December 31, 2014	<u>2,020,680</u>
4a. Comprehensive Income	<u>(63,612)</u>
4b. Adjusted balance December 31, 2014	1,957,068
5. Future accrual	132,865
6. Estimated payouts	(152,604)
7. Estimated balance December 31, 2015	<u><u>\$ 1,937,329</u></u>

Shelby Energy Cooperative
Medical Insurance Premiums

SFAS 106/158 Obligation as of December 31, 2014

FAS 106 Expense Components

1.	Service cost	\$	24,683
2.	Interest cost		108,182
3.	Expected return on assets		=
4.	Amortization of transition obligation		=
5.	Amortization of actuarial (gain) / loss		11,039
6.	Total FAS 106 expense	\$	<u>143,904</u>
7.	Expected pay-as-you-go expense	\$	<u>152,604</u>

Alternate assumptions:

Impact on obligations and expense of a health care cost trend increase of 1%

	Current <u>Plan</u>	Alternate <u>Assumptions</u>	<u>% Change</u>
APBO	1,976,807	665,000	-66.4%
EPBO	2,846,074	1,360,000	-52.2%
SFAS 106 Expense	143,904	43,000	-70.1%

Payments for the next five (5) years are estimated as follows:

2015		\$152,604
2016		164,431
2017		168,206
2018		141,037
2019		114,732

Shelby Energy Cooperative

SFAS 106 Assumptions

Covered Groups All eligible employees.

Eligibility Employees who reach normal retirement, either (a) earlier of age 62 or thirty (30) years of service, or (b) early retirement at age 55. Employees hired after July 1, 1996 will not be eligible for the provisions of this policy.

Spouse Shelby pays family medical coverage for retirees and dependents.

Medicare At age 65 retirees will commence with Medicare coverage.

Employee Contributions The Cooperative contributes 100% of the retired employee's and dependents' or surviving spouse's medical premium based on the retiree's years of service according to the following table:

Employees hired on or before July 1, 1996:

Years of Service	Percent of Premiums
less than 10	0%
10 - 15	50%
15 - 20	67%
20 or more	100%

Life Expectancies Per annuity tables female employees can expect to live until age 78.2 and male employees until age 73.8.

Retirement and Withdrawals Estimate that employees retiring will be replaced in the normal course of business. However, for those hired after July 1, 1996, Shelby will not pay the premiums.

Terminations Rates vary by attained age for employees. Sample rates are as follows:

<u>Age</u>	<u>Rate</u>	<u>No. of Employees</u>
20	15%	0
30	7%	2
40	3%	3
50	1%	7
60	0%	3
		<hr/>
		15
		<hr/>

Discount Rate 5.0% per year.

Shelby Energy Cooperative

SFAS 106 Assumptions

Medical Inflation Rate 8.0% for the first year, then decreasing by 0.25% per year until level at 5% per year.

Eligibility Classes Based on eligible employees as of December 31, 2014, are as follows:

	<u>Employees</u>
Actives not fully eligible	12
Actives fully eligible	3
Retirees and dependents	<u>24</u>
Total	<u>39</u>

Shelby Energy Services
Balance Sheet
As of December 31, 2015

	<u>Dec 31, 15</u>
ASSETS	
Current Assets	
Checking/Savings	
Cash	1,984.54
Total Checking/Savings	<u>1,984.54</u>
Total Current Assets	1,984.54
Other Assets	
Investment-Shelby Propane Plus	1,086,560.88
P&L - Shelby Propane Plus	1,093,620.44
Total Other Assets	<u>2,180,181.32</u>
TOTAL ASSETS	<u><u>2,182,165.86</u></u>
LIABILITIES & EQUITY	
Liabilities	
Long Term Liabilities	
Notes Payable - EKP - Propane P	540,655.10
Total Long Term Liabilities	<u>540,655.10</u>
Total Liabilities	540,655.10
Equity	
EKPC Retained Earnings	81,823.83
Treasury Stock	-100,886.00
Capital Stock	
Capital Stock - SEC	<u>1,379,000.00</u>
Total Capital Stock	1,379,000.00
Retained Earnings	246,471.52
Net Income	35,101.41
Total Equity	<u>1,641,510.76</u>
TOTAL LIABILITIES & EQUITY	<u><u>2,182,165.86</u></u>

Shelby Energy Services
Profit & Loss
January through December 2015

	<u>Jan - Dec 15</u>
Ordinary Income/Expense	
Income	
P&L - Shelby Propane	211,402.84
Total Income	211,402.84
Expense	
Audits	3,250.00
Interest Expense	
Loan Interest	5,048.94
Interest Expense - Other	1,285.36
Total Interest Expense	6,334.30
Professional Fees	
Tax Preparation	900.00
Total Professional Fees	900.00
Taxes	
Federal	138,211.00
State	25,585.00
Total Taxes	163,796.00
Total Expense	174,280.30
Net Ordinary Income	37,122.54
Other Income/Expense	
Other Income	
Interest Income	85.31
Total Other Income	85.31
Other Expense	
Other Expenses	15.00
SEC - Annual Allocations	2,091.44
Total Other Expense	2,106.44
Net Other Income	-2,021.13
Net Income	<u>35,101.41</u>

Shelby Energy Services
Balance Sheet
As of December 31, 2016

	<u>Dec 31, 16</u>
ASSETS	
Current Assets	
Checking/Savings	
Cash	23,667.40
Total Checking/Savings	<u>23,667.40</u>
Total Current Assets	23,667.40
Other Assets	
Investment-Shelby Propane Plus	995,247.84
P&L - Shelby Propane Plus	1,093,620.44
Total Other Assets	<u>2,088,868.28</u>
TOTAL ASSETS	<u><u>2,112,535.68</u></u>
LIABILITIES & EQUITY	
Liabilities	
Long Term Liabilities	
Notes Payable - EKP - Propane P	491,425.94
Total Long Term Liabilities	<u>491,425.94</u>
Total Liabilities	491,425.94
Equity	
EKPC Retained Earnings	81,823.83
Treasury Stock	-100,886.00
Capital Stock	
Capital Stock - SEC	1,379,000.00
Total Capital Stock	1,379,000.00
Retained Earnings	281,572.93
Net Income	-20,401.02
Total Equity	<u>1,621,109.74</u>
TOTAL LIABILITIES & EQUITY	<u><u>2,112,535.68</u></u>

Shelby Energy Services
Profit & Loss
January through December 2016

	Jan - Dec-16
Ordinary Income/Expense	
Expense	
Audits	3,250.00
Interest Expense	14,881.02
Professional Fees	
Tax Preparation	900.00
Total Professional Fees	900.00
Taxes	
Federal	186.00
State	1,169.00
Total Taxes	1,355.00
Total Expense	20,386.02
Net Ordinary Income	-20,386.02
Other Income/Expense	
Other Expense	
Other Expenses	15.00
Total Other Expense	15.00
Net Other Income	-15.00
Net Income	-20,401.02

SHELBY ENERGY COOPERATIVE, INC.
Shelbyville, Kentucky

POLICY NO. 902

WAGE & SALARY ADMINISTRATION

I. OBJECTIVE:

- A. It is the objective of Shelby Energy to compensate each employee according to job responsibility and performance. An equitable Wage & Salary Program is designed to attract and retain qualified employees, as well as motivate employees to perform their duties in a most effective manner.
- B. The development of a sound Wage & Salary Program addresses several factors:
- ◆ Deals with the changing workforce,
 - ◆ Attempts to meet employee expectations,
 - ◆ Ensures payroll dollars are spent effectively,
 - ◆ Assures Shelby Energy complies with all laws and regulations regarding pay practices,
 - ◆ Helps Shelby Energy and its employees cope with inflationary living costs,
 - ◆ Addresses employee needs to understand the basis for pay decisions,
 - ◆ Ensures competitiveness and internal equity across all markets, and geographic locations in which Shelby Energy operates, and
 - ◆ Aids in recruitment and retention.

II. CONTENT:

- A. Compensation System
The goals of the Shelby Energy compensation system are to:
1. Attract and maintain a talented workforce.
 2. Fairly and accurately determine the value of positions internally and externally.
 3. Ensure that compensation meets the needs of our diverse workforce in each location.
 4. Protect our investment in human capital.
- B. Job Evaluation
1. A process called "Job Evaluation" will be used to ensure Shelby Energy pays fair and equitable salaries according to job responsibilities. This process uses position comparison to arrive at its conclusions. Job Evaluation allows very different jobs to be compared because it evaluates factors common to all jobs.

2. The Job Evaluation method involves establishing benchmarked positions that are compared to similar jobs within our industry. From this process, it is possible to establish market pricing.
3. On occasion, the external equity demands moving positions to a lower or higher grade, independent of the internal evaluation. Conducting Wage & Salary Surveys regularly assures Shelby Energy pay practices have external equity.

C. Job Description

1. A Job Description is a written list of specifications that explains the duties and requirements of a job. It describes the knowledge, skill and abilities needed to perform the job.
2. The Job Description will also contain the reporting relationship and the general background qualifications for the job. An individual who either knows the job from experience, or has been trained to study and create descriptions for jobs, assists the Human Resources representative in assuring there is a correct description for each job.
3. A Job Analysis Questionnaire (JAQ) is used to gather information needed to create a job description.
4. The VP/Manager supervisor reviews the information prepared by the employee on the JAQ and adds additional information needed to have a complete description of the position prior to sending the information to Human Resources.

D. Pay Levels and Ranges

1. All jobs will be evaluated and placed into pay levels, which are then translated into dollars and cents via the Shelby Energy Wage and Salary Program.
2. When a new position is created, a job description will be written, the job will be evaluated, assigned to a pay level, and a salary range consistent with the grade will be established.
3. When a position is changed substantially, a reclassification analysis will occur. This may result in a change of grade and salary range.

E. Salary Scales

1. Shelby Energy will utilize a salary scale, which is created through benchmarking practices and re-evaluated on an annual basis.
2. The Wage and Salary Program will be audited for internal equity and for impact from those external factors that can serve to make the program non-competitive.

F. Salaries Outside the Range

1. When the salary of an employee falls above the maximum paid for the salary grade to which the employee is assigned, the employee will be considered to have "maxed out." The salary of the employee will not be increased unless:
 - a. the employee is promoted to a higher salary grade, the range is adjusted upward in a reevaluation of the entire program or;
 - b. the range is adjusted upward due to the reevaluation of a specific job to which the employee is assigned.
2. When an employee is paid below the minimum salary for the job to which the employee is assigned, the employee will be considered to be "under the range." This may occur when the employee is promoted to a job on a conditional or probationary basis.

G. Pay Period

1. The employees of Shelby Energy are paid twice a month; not later than the 2nd and 17th for work done from the 1st through the 15th and from the 16th through the last day of the month, respectively. When payday falls on Sundays or holidays, employees will be paid the next regular working day. When payday falls on a Saturday, employees will be paid the previous working day. The regular workweek of all personnel will be from 7:30 a.m. to 4:30 p.m., with one hour off for lunch, Monday through Friday. The office will be closed on Saturdays, Sundays and Holidays.
2. The normal pay period for a work week is considered to commence at 12:01 a.m. Monday, and end at 12:01 a.m. the following Monday, and for employees who are not otherwise exempt under the Wage and Hour Law, all hours worked in excess of forty (40) during any such week will be paid for at time and one-half the regular wage. After determination of the number of hours and days that an employee is normally scheduled to work in any week, he/she will be expected to report for work in accordance with that pre-arranged schedule regardless of the overtime hours he/she may have worked during any one period.

H. Statement of Earnings

1. The net earnings received by the employee are paid after mandated taxes and other deductions authorized by the employee are withheld. Unless federal or state law requires the withholdings, no money will be withheld from an employee's paycheck unless the employee has authorized the deduction in writing. Such authorization shall become part of the employee's permanent personnel record. The U.S. Department of Labor and external auditors employed by Shelby Energy routinely audit such documents.
2. At the end of each year, each employee will receive a statement of earnings and withholdings. The W-2 Statement of Earnings will be prepared as soon after the calendar year-end as is possible, and will be distributed to employees by their designated VP/Manager.

I. Salary Approval

Throughout the Wage & Salary Policy, references are made to the level of approval required for specific salary actions. Human Resource Action forms with a request for pay must be prepared and signed by the Human Resources representative and shall have the following required authorized signature approvals:

1. Department VP/Manager
2. President and CEO

J. Salary Adjustments

Once an employee joins Shelby Energy, salary adjustments may be made via the following methods:

1. New Employee Orientation:
When the orientation period is ended, a request for salary adjustment may be made based on the level of performance demonstrated during the Orientation Period.
2. Promotion:
A request for salary adjustment may be made when an employee is promoted to a higher level position.
3. Annual Review:
Each employee is reviewed for performance adjustments in November of each year.
4. Performance Improvement Program:
When an employee has been placed in a Performance Improvement Plan, the supervisor may request that a salary adjustment be made when the program is successfully completed.

K. Promotions/Demotions/Transfers

1. An employee, who is promoted to a position at a higher grade than his or her current position, may receive a promotional increase equal to one half of the difference between the midpoints of the two grades or an amount needed to attain the minimum salary of the new grade. For example, if the difference between the midpoints is 10%, the employee may receive a 5% promotional increase. A promotional increase may be given based on performance in installments periodically, until the employee has reached the minimum for the new grade.
2. An employee who is demoted to a position at a lower grade than his or her current position may have his or her salary reduced. The reduction may be equal to one-half of the difference between the midpoints of the two grades. For example, if the difference between the midpoints is 10%, the employee may receive a 5% reduction in salary. If the demotion is not related to the employee's performance, the employee's salary may be frozen at his/her current level for a period of 12 months. At the end of 12 months the

employee's salary may be lowered to an amount equal to the maximum of the new salary grade, if it is lower than the employee's salary at that time.

3. In the event of an employee transfer, the 'receiving' manager will need to turn in a Human Resources Action form with appropriate signature/approval levels prior to the transfer. When an employee is transferred or promoted, the appropriate manager MUST make sure there is a job description for the position. If a job description has not already been created, the manager will need to create one and have it approved PRIOR to the transfer/promotion. If this is a new position, the President and CEO approval must be obtained prior to initiating the recruitment effort.

L. Position Upgrades

Recommendations for position upgrades should be submitted to the Human Resources representative for review with final approval by the President and CEO. Justification for these requests must be submitted, along with a Job Reclassification Document that includes the following information:

1. An updated job description that clearly indicates the specific changes and/or increases in duties and responsibilities.
2. Any organizational changes that have affected the position's functions and/or reporting level.

M. Adding Staff

1. All replacements and/or additions to headcount must have the approval of the President and CEO.
2. When the approval for a new position is completed, a position description must be attached before recruiting may begin.
3. Every new position is assigned a grade number. The number must be assigned before a position can be filled.

N. Salary Records

1. Records of the earnings of each Shelby Energy employee are maintained in the office of Human Resources along with the Human Resources representative maintaining a history of the employee's progress and growth within Shelby Energy.
2. These records also provide the history useful to VP/Managers when an employee is considered for promotion, transfer, demotion, or termination.
3. An employee may refer potential creditors or prospective employers to the Human Resources representative for work history and references. The Human Resources representative verifies the earnings and employment dates.
4. Reference information will be released according to the policy established by Shelby Energy and the applicable law in Kentucky.

O. Discrepancies in Pay

1. Every Shelby Energy employee paycheck will be calculated at the rate of pay listed on the most current approved request for pay increase.
2. When an employee believes a paycheck is inaccurate, complaints about the inaccuracies shall be made to the Human Resources representative within thirty (30) days of receipt of the paycheck.

P. Starting Salaries

1. Starting salaries for newly hired employees should be based on the qualifications the individual brings to the position.
2. The Human Resources representative and the hiring manager will recommend starting salaries for new hires with final approval by the President & CEO.
3. Any starting salaries above the midpoint require the approval of the President and CEO as the financial impact affects the company budget.

Q. Salary Structure Review

On at least an annual basis the salary structure will be reviewed to determine if an adjustment is appropriate. All information to support the percentage of adjustment will be submitted to the President and CEO for presentation to the board of directors. The following criteria will be used to determine the adjustment:

1. Ability to pay – Shelby Energy financial status will be reviewed first.
2. Compa-Ratio – Our overall philosophy indicates that the compa-ratio for Shelby Energy as a whole should be at or near 100%. (Compa-Ratio is the relationship of an employee's pay to the midpoint of the assigned salary grade.)
3. Market Data – Updated market data reports will be used to determine if the market has made a significant change.

III. Responsibility

The President and CEO is responsible for the administration of this policy.

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