

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) CASE NO. 2005-00450
FOR AN ADJUSTMENT OF RATES)

**REQUEST FOR INFORMATION OF THE
ATTORNEY GENERAL TO SOUTH KENTUCKY
RURAL ELECTRIC COOPERATIVE CORPORATION**

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and submits Rehearing Request for Information to South Kentucky Rural Electric Cooperative Corporation, to be answered by the date specified in the Commission's Order of Procedure, and in accord with the following:

- (1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate request item will be deemed a satisfactory response.
- (2) Please identify the witness who will be prepared to answer questions concerning each request.
- (3) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional information within the scope of these requests between the time of the response and the time of any hearing conducted hereon.
- (4) If any request appears confusing, please request clarification directly from the Office of Attorney General.
- (5) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(6) To the extent that any request may be answered by way of a computer printout, please identify each variable contained in the printout which would not be self evident to a person not familiar with the printout.


(7) If the company has objections to any request on the grounds that the requested information is proprietary in nature, or for any other reason, please notify the Office of the Attorney General as soon as possible.

(8) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

(9) In the event any document called for has been destroyed or transferred beyond the control of the company, please state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer; and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

Respectfully submitted,

GREGORY D. STUMBO
ATTORNEY GENERAL



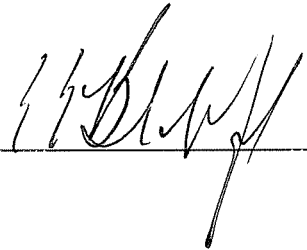
ELIZABETH E. BLACKFORD
LAWRENCE W. COOK
ASSISTANT ATTORNEYS GENERAL
Office for Rate Intervention
1024 Capital Center Drive, Suite 200
Frankfort, KY 40601
(502) 696-5453

CERTIFICATE OF SERVICE AND NOTICE OF FILING

I hereby give notice that this the 8th day of May, 2006, I have filed the original and eight copies of the foregoing with the Executive Director of the Kentucky Public Service Commission at 211 Sower Boulevard, Frankfort, Kentucky, 40601 and certify that this same day I have served the parties by mailing a true copy of same, postage prepaid, to those listed below.

ALLEN ANDERSON
MANAGER
SOUTH KENTUCKY RECC
P O BOX 910
SOMERSET KY 42502-0910

HONORABLE DARRELL L SAUNDERS PSC
P O BOX 1324
CORBIN KY 40702



**Request For Information Of The
Attorney General To South Kentucky
Rural Electric Cooperative Corporation
Case No. 2005-00450**

1. Please explain the derivation of the Adjusted Test Year cash working capital amount of \$439,478 (see Exhibit K, page 2).
2. Given that the Coop has the availability of \$607,015 worth of Customer Deposit funds (see Exhibit S, page 1, line 47) and has not deducted this Customer Deposit balance from its rate base, explain why the Coop believes it appropriate to include \$34,454 for Customer Deposit interest expense (see Exhibit X, page 7, acct. 431) in its determination of the requested rate increase in this case. Stated differently, if Customer Deposits are not to be considered for ratemaking purposes in this case, explain why the interest expenses associated with Customer Deposits have been considered for ratemaking purposes by the Coop.¹
3. Exhibit N, page 15, paragraph 12 states that “Several of the Directors of South Kentucky, the General Manager & CEO and another employee are members of the Board of Directors of various associated organizations.” Please provide a listing showing the names of the GM/CEO, Directors and employee and the associated organizations for which each of these individuals are a member of the Board of Directors.

In addition, provide a description of the nature and purpose of each of these associated organizations and explain whether these associated organizations provide services or products to the Coop. If so, identify the dollar value of such services/products rendered to the Coop in 2003, 2004 and 2005.

4. Exhibit N, page 15, paragraph 12 states that:

“During 2004, South Kentucky has started conducting business with an auto parts store owned by the President of its Board of Directors. The amount of parts purchased during 2005 was \$63,249 and 2004 was \$64,296. South Kentucky also conducts business with another business owned by the President whereby it purchases telephones and accessories, which amounted to \$7,472 for 2005 and \$10,279 for 2004. South Kentucky also purchases miscellaneous office items from another of its Directors in the amount of \$4,789 for 2005 and \$3,802 for 2004. Another Director owns a store where office items are purchased in the amount of \$972 for 2005.”

“South Kentucky purchases carpet and other items from its General Manager & CEO. These purchases amounted to none for 2005 and \$5,581 for 2004.”

¹ The AG also notes that the Coop has removed the test year short term debt interest expenses of \$2,962 for ratemaking purposes in this case (see Exhibit 5, page 1).

With regard to the above stated information, please provide the following information:

- a. Please reconcile these purchases to Article IV, Section 4.03 of the Coop's By-Laws (see PSC-1-15, p.5) which, among other things, provides that:

“...no person shall be eligible to become or remain a director of the Cooperative who is; ...(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...”

- b. Did the businesses belonging to the President of the Coop's Board of Directors, the business belonging to the two other directors of the Coop, and the business belonging to the General Manager & CEO conduct business and sell products to the members of the Coop in 2005 and 2004? If so, reconcile this with the By-Law's provisions referenced in part a above which prohibits such practice.
5. Re. Exhibit 1, page 15: Provide a detailed explanation justifying the salary increases of approximately 30%, 21% and 14% for the Coop's CEO, COO and CFO in fiscal year 2004.
 6. The response to PSC-1-13 indicates that the Coop booked non-utility property taxes of \$1,877 in the test year. Does the claimed revenue requirement in this case include non-utility property taxes and, if so, indicate the dollar amount and explain why these taxes should be recognized for ratemaking purposes.
 7. With regard to the long-term debt interest information shown on Exhibit 5, page 2, please provide the following information:
 - a. Explain why the Coop in the test year did not book the annualized interest expenses (5.04% x outstanding balance) for the 1B353 RUS loan, but booked an interest expense amount of only \$267,381.
 - b. Explain why the cost rates for the 9009 and 9018 through 9023 CFC loans increased from 4.20% (see PSC-1-8, page 2) to the higher interest rates ranging from 5.25% to 6.70%.
 8. Exhibit 9 shows that the test year includes \$3,434 of legal expenses associated with Mr. Saunders' attendance of the NRECA Annual Meeting (check no. 112786 for \$475 on page 6 and check no. 113242 for \$2,959 on page 9). Is the Coop aware of the fact that the KPSC has historically disallowed such expenses for ratemaking purposes?

9. Exhibit 9, page 10 shows that the Coop has paid Garland & Associates monthly “Contract Services” fees relating to economic development totaling approximately \$161,400 for the test year. In this regard, please provide the following information:
 - a. Please explain the relationship between the Coop and Garland & Associates and indicate as to whether Garland & Associates is in any way related to the Coop’s directors, management, or employees. If so, provide details about this relationship.
 - b. Provide a detailed description of the purpose and nature of these contract services. In addition, provide a copy of the most recent (8/31/05) invoice for \$13,715.

10. Please provide a description of the nature and purpose of each of the following “economic development” charges shown on Exhibit 9, page 10 and, in addition, provide a copy of the invoice for the charge:
 - a. \$568 for Foothills Academy
 - b. \$1,000 for Southern Development Association
 - c. \$3,169 for Business/Industry dinner
 - d. \$500 for Bluestone Financial
 - e. \$1,650 for McCreary Chamber
 - f. \$500 for Grant writing services
 - g. \$1,000 for Russell Chamber banquet
 - h. \$5,000 for Ronald W. Roy
 - i. \$300 for Casey Co Leadership donation
 - j. \$224.50 for Grant writing – Penny Young
 - k. \$4,000 for Environmental Assessment
 - l. \$1,500 for Mayes, Sudderth & Etheredge

11. Please provide a description of the Garland & Associates “monthly expenses” (August, September, etc.) on Exhibit 9, page 10, totaling \$15,151 for the test year.

12. With regard to Exhibit 10 (directors fees and expenses), please provide the following information:
 - a. Page 5 of the exhibit shows that the expenses include \$3,224 for the director’s internet and telephone subscription charges. Please explain the exact nature of these charges and why these charges should be included for ratemaking purposes.
 - b. Exhibit 10, pages 6-12 shows that the test year includes \$7,651 for NRECA Annual Meeting expenses and \$647 for KAEC Annual Meeting expenses for a number of the directors. Is the Coop aware of the fact that the KPSC has historically disallowed such expenses for ratemaking purposes?

13. Please explain the net test year expense of approximately \$25,000 referred to as “Rural Business Opportunity Grants” shown at the bottom of Exhibit 11, page 8.

Your explanation should include a description of the nature and purpose of these expenses.

14. Please explain whether meters are “customer read” or read by South Kentucky on a monthly basis for the following rate classes:
 - a. Residential Schedule A
 - b. Commercial Schedule B
 - c. Large Power Schedule LP
 - d. Large Power Schedule LP-3
 - e. Schedule OPS
15. Please Provide Exhibit J in an electronic format. Please leave all formulas intact. Please also provide the format in which the exhibit was created (example EXCEL 97).
16. Please Provide Exhibit R (the Cost of Service Study and associated schedules) in an electronic format. Please leave all formulas intact. Please also provide the format in which the exhibit was created (example EXCEL 97).
17. Please provide all calculations, assumptions, and workpapers used in the production of the Cost of Service Study that have not already been provided.
18. Please refer to Exhibit R. There are no costs associated with Transformers allocated to the ETS class.
 - a. It is correct that South Kentucky is assigning the entire cost of a transformer to serve a residential load to the regular Schedule A customer, and none of the cost of the transformer to the ETS?
 - b. Are there situations where a larger transformer must be used to supply the additional ETS load?
19. Please refer to Exhibit R. There are no costs associated with Services allocated to the ETS class.
 - a. It is correct that South Kentucky is assigning the entire cost of a Service to serve a residential load to the regular Schedule A customer, and none of the cost of Services to the ETS?
 - b. Are there situations where a larger Service must be used to supply the additional ETS load?
20. Please refer to Exhibit R, Schedule 8, page 4 of 7. There are no costs associated with Meters allocated to the ETS classes. Yet in Exhibit B, Schedule A and Schedule B, it clearly states that ETS use must be separately metered. If there must be a separate meter for ETS, why are there no meter costs allocated to the ETS class in the Cost of Service Study?
21. For the 1722 South Kentucky residential customers that also take service under the ETS Marketing rate, please provide the following:

- a. Total Kwh sales to these 1722 customers during the test-year under the regular Schedule A rate tariff.
 - b. Total Kwh sales to these 1722 customers during the test-year under the ETS Marketing tariff.
22. For the 2 South Kentucky commercial customers that also take service under the ETS Marketing rate, please provide the following:
 - a. Total Kwh sales to these 2 customers during the test-year under the regular Schedule B rate tariff.
 - b. Total Kwh sales to these 2 customers during the test-year under the ETS Marketing tariff.
23. Exhibit B, Schedule A states that the ETS rate is for energy purchased from the wholesale supplier under their marketing rate.
 - a. Please provide a copy of the wholesale supplier's marketing rate.
 - b. Is this the only tariff under which South Kentucky takes power from EKPC? If not, please provide the other tariffs under which South Kentucky purchases wholesale power, and identify which substations take power under which tariffs.
 - c. Please provide copies of the actual wholesale power invoices from EKPC for power purchased during each month of the test year by South Kentucky.
 - d. If South Kentucky receives a discount from EKPC for ETS power sold, please show where on invoices this discount was credited to South Kentucky, and provide a test year total of this discount received from EKPC.
24. Exhibit B, Schedule A lists the off-peak hours to which the ETS tariff applies. This results in 4804 of the 8760 hours in the test year that are off-peak, and the remaining 3956 hours are on-peak.
 - a. Please provide the number of the 3956 on-peak hours during the test year in which EKPC, South Kentucky's wholesale supplier, ran at least one combustion turbine generator.
 - b. Please provide the number of the 4804 on-peak hours during the test year in which EKPC, South Kentucky's wholesale supplier, ran at least one combustion turbine generator.
25. Please refer to Exhibit R, Schedule 6, page 1 of 6. Please explain how the Schedule A ETS can have negative sales in July.
26. Please refer to Exhibit R, Schedule 6, page 5 of 6. This table shows that the ETS rate class has no non-coincident peak in every month, which is a physical impossibility since the Schedule A ETS class has energy sales in each month (except possibly July). Please provide the non-coincident peaks for the ETS class for each month of the test year, for both Schedules A and B.
27. It appears that South Kentucky is not requesting to change any of its non-recurring charges. Please confirm that no changes to non-recurring charges are being requested.

28. Please provide a rationale for why a discount marketing rate (the ETS rate) to promote sales is justified in 2006, when EKPC is extremely capacity deficient and is having to add a significant amount of expensive new baseload capacity to meet this deficiency.
29. Please explain why the regular Schedule A rates are proposed to be raised by \$0.0035 per kwh, and South Kentucky is proposing to raise the ETS Marketing rate by only \$0.0021 per kwh. Please provide all calculations, assumptions and workpapers used to justify this difference.
30. Please refer to Exhibit R, Schedule 8, page 6 of 7 and 7 of 7, the "E. Customer & Accounting Services" calculations:
 - a. Please provide the total Meter Reading costs during the test year.
 - b. Please provide the total Consumer Records costs during the test year.
 - c. Please provide the total Customer Assistance costs during the test year.
 - d. Please provide all calculations, assumptions, and workpapers used to generate the "Factor" figures on these pages.
 - e. Please provide all calculations, assumptions, and workpapers used to generate the "Weight" figures on these pages.
31. Please provide all calculations, assumptions and workpapers used to develop the proposed Monthly Customer Charges for each rate class.
32. Please explain how the proposed 40% increase in Schedule OL rates is consistent with the principle of continuity and gradualism.
33. Please explain how the proposed 50% increase in Schedule STL rates is consistent with the principle of continuity and gradualism.
34. In Exhibit B, the proposed tariffs, the tariffs state that the ETS rate is set at 60% of the regular Schedule A and Schedule B rates. Please provide all calculations, assumptions and workpapers used to generate this 60% rate level.